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TOBACCO EQUALIZATION ACT OF 1985

ORIGINAL

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON TOBACCO AND PEANUTS

OF THE

COMMITTEE ON AGRICULTURE

AND THE

SUBCOMMITTEE ON SELECT REVENUE MEASURES

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 2600

JULY 18, 1985

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TOBACCO EQUALIZATION ACT OF 1985

THURSDAY, JULY 18, 1985

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON TOBACCO AND PEANUTS, COMMITTEE ON AGRICULTURE, JOINTLY WITH THE SUBCOMMITTEE ON SELECT REVENUE MEASURES, COMMITTEE ON WAYS AND MEANS,

Washington, DC.

The subcommittees met, pursuant to notice, at 10:10 a.m., in room H-137, the Capitol, Hon. Charles B. Rangel (chairman of the Subcommittee on Select Revenue Measures) presiding.

Present: Representatives Vander Jagt, Campbell, and Thomas of California, Subcommittee on Select Revenue Measures.

Present: Representatives Rose, Jones of North Carolina, Hatcher, Whitley, Tallon, Thomas of Georgia, Hopkins, and Combest, Subcommittee on Tobacco and Peanuts.

Also present: Representatives Cooper, Perkins, and Sisisky.

Staff present: Rob Leonard, Susan Rogers, and Peggy Butner, Committee on Ways and Means.

Glenda L. Temple, clerk; Joan Teague Rose, Heidi Pender, Rick Kirchhoff, and Carol Ann Dubard, Committee on Agriculture.

OPENING STATEMENT OF HON. CHARLES ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. The subcommittees will please come to order.

The Subcommittee on Tobacco and Peanuts of the House Agriculture Committee and the Subcommittee on Select Revenue Measures of the House Ways and Means Committee are holding this joint public hearing today to consider H.R. 2600, the Tobacco Equalization Act of 1985.

Before he makes his opening statement, I want to publicly thank Chairman Charlie Rangel, the chairman of the Select Revenue Measures Subcommittee, for agreeing to hold this subcommittee hearing with us. There are not many people in this House who are any busier than Charlie Rangel, and him giving of his time to come and listen to some of this testimony today is a real favor for us.

We are at a crossroads in the Tobacco Price Program. We agreed in 1982 that we would run the program at no net cost to the taxpayers. Since that agreement, the dollar has brought large quantities of offshore tobacco into this country; and we find that our stabilization warehouses are overflowing with tobacco, for which the American farmer is responsible.

We all know that there are things that must be done to change the Tobacco Price Support Program to make American tobacco more competitive on the world market. It was not my intention in drafting H.R. 2600 that we in that bill cure all the things that need to be done with the Tobacco Support Program, but to rather address the central problem of how we dispose of the millions of pounds of surplus tobacco that are in the warehouses of the cured and burley stabilization cooperatives.

The other body has a bill that would address that problem by using funds from the Treasury. I feel that it is rather unlikely that either body would pass such a measure in the current situation that we find ourselves in in Washington. I believe that the measure that we have before us today has a more reasonable prospect of finding favor with our colleagues, either in this or some slightly altered form.

I thank you for coming.

[H.R. 2600 and the prepared statement of Mr. Jones of North Carolina follow:]

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99TH CONGRESS
1ST SESSION

H. R. 2600

To amend the Agricultural Act of 1949 and the Internal Revenue Code of 1954.

IN THE HOUSE OF REPRESENTATIVES

MAY 23, 1985

Mr. ROSE (for himself, Mr. HATCHER, Mr. ENGLISH, Mr. THOMAS of Georgia, Mr. STENHOLM, Mr. SISISKY, Mr. BOUCHER, Mr. COOPER, Mr. DERRICK, Mr. GORDON, Mr. HARTNETT, Mr. PERKINS, Mr. SPRATT, Mr. BEDELL, Mr. DORGAN of North Dakota, Mr. EDGAR, Mr. LOWRY of Washington, Mrs. SCHROEDER, and Mr. TOWNS) introduced the following bill; which was referred jointly to the Committees on Agriculture and Ways and Means

---

A BILL

To amend the Agricultural Act of 1949 and the Internal Revenue Code of 1954.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Tobacco Equalization Act of 1985".

TITLE I—ADJUSTMENT OF TOBACCO PRICE SUPPORT PROGRAM

SEC. 101. Section 106A of the Agricultural Act of 1949 is amended by adding at the end thereof the following new subsection:

"(h) The provisions of this section shall not apply to the 1985 and subsequent crops of tobacco.".

SEC. 102. Section 106B of the Agricultural Act of 1949 is amended by adding at the end thereof the following new subsection:

"(j) The provisions of this section shall not apply to the 1985 and subsequent crops of tobacco.".

SEC. 103. The Agricultural Act of 1949 is amended by inserting after section 106B the following new sections 106C and 106D:

"PRICE SUPPORT THROUGH LOANS TO ASSOCIATIONS

"SEC. 106C. With respect to the 1985 and subsequent crops of tobacco, the Secretary shall carry out the tobacco price support program through the Commodity Credit Corporation and shall continue to make price support available to producers through loans to associations that, under agreements with the Corporation, agree to make loan advances to producers.

"PAYMENTS TO THE COMMODITY CREDIT CORPORATION, THE TREASURY

"SEC. 106D. (a) Each association that maintains a No Net Cost Tobacco Fund under section 106A of this Act shall, as soon as the Secretary determines practicable after December 31, 1985, pay to the Commodity Credit Corporation (referred to in this section as 'the Corporation') the unobligated balance of the fund as of December 31, 1985, and shall, when directed by the Secretary, pay to the Corporation any contributions to the fund made by producers after December 31, 1985. Upon such payment, the association shall (1) have no further liability with respect to the fund either to the Corporation or to any producer who contributed to the fund, except to the extent that the association used moneys from the fund in a manner inconsistent with the provisions of this Act or its loan agreement with the Corporation, and (2) cancel any capital stock, capital certificate, or qualified per unit retain certificate issued by the association under section 106A(d), without further liability or obligation on its part to any holder thereof. If the Secretary determines that the total amounts of any payments under this subsection by any association to the Corporation exceed the Corporation's realized net losses with respect to the 1982 through 1984 crops of tobacco pledged to the Corporation by the association, the Secretary shall distribute, through the association, such excess to the former holders of such stock or certificates on such fair and equitable basis as the Secretary may prescribe.

"(b) The Corporation shall pay to the general fund of the Treasury (1) as soon as practicable after receiving payments from associations under the first sentence of subsection (a), all such payments, and (2) as soon as practicable, the unobligated balance, as of December 31, 1985, of all No Net Cost Tobacco Accounts established under section 106B of this Act, and any assessments paid to the accounts after December 31, 1985.

"(c) For purposes of this section, the term 'the Corporation's realized net losses' means, with respect to any crop of tobacco, the amount by which the total principal amount of the Corporation's price support loan to an association for the crop, plus the unpaid interest on such loan, exceeds the proceeds obtained from the sale of all of the tobacco securing the loan.".

SEC. 104. The amendments made by this title shall take effect upon enactment.

TITLE II—ADDITIONAL TAX ON CIGARETTES

SEC. 201. IMPOSITION OF ADDITIONAL EXCISE TAX ON CIGARETTES.

(a) IN GENERAL.—Subsection (b) of section 5701 of the Internal Revenue Code of 1954 (relating to tax on cigarettes) is amended by striking out the period at the end of paragraph (2) and inserting in lieu thereof "; and" and by adding at the end thereof the following new paragraph:

"(3) TOBACCO SUPPORT PROGRAM TAX.—On all cigarettes, regardless of weight, the amount per thousand determined under subsection (f). For purposes of the preceding sentence, if a cigarette is more than 2¾ inches in length, each 2¾ inches (or fraction thereof) of its length shall be counted as 1 cigarette.".

(b) DETERMINATION OF RATE OF TAX.—Section 5701 of such Code is amended by adding at the end thereof the following new subsection:

"(f) DETERMINATION OF RATE OF TOBACCO SUPPORT PROGRAM TAX.—

"(1) IN GENERAL.—Not later than December 15, 1985 and each subsequent calendar year, the Secretary shall prescribe the rate of tax under subsection (b)(3) with respect to cigarettes removed during the following calendar year.

"(2) DETERMINATION OF RATE.—

"(A) IN GENERAL.—The rate which is to apply under subsection (b)(3) to cigarettes removed during any calendar year shall be the rate determined by the Secretary of the Treasury such that, based on estimates by the Secretary of the amount described in paragraph (3), the estimated closing balance of the Tobacco Equalization Trust Fund for such calendar year is not less than $10,000,000.

"(B) MINIMUM RATE.—The rate determined under subparagraph (A) shall in no event be less than 2 cents.

"(C) ROUNDING.—If the amount determined under subparagraph (A) is not a multiple of 1 cent, such amount shall be rounded to the next highest multiple of 1 cent.

"(3) SPECIAL RULES FOR DETERMINING RATE.—

"(A) IN GENERAL.—For purposes of paragraph (2), in determining the closing balance of the Tobacco Equalization Trust Fund, the Secretary of the Treasury shall assume that—

"(i) all net realized losses sustained during the calendar year will be paid from such fund during such calendar year,

"(ii) all distributions to be made by the Commodity Credit Corporation during the calendar year will be paid from such fund during such calendar year,

"(iii) all expenses of administration incurred during the calendar year will be paid from such fund during such calendar year, and

"(iv) section 9505(c)(1)(D) will not apply during the calendar year.

Items described in clauses (i), (ii), and (iii) shall be taken into account only if such items may be paid from such fund.

"(B) CONSULTATION WITH SECRETARY OF AGRICULTURE.—Estimates by the Secretary under this subsection shall be made after consultation with the Secretary of Agriculture.".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to cigarettes removed after December 31, 1985.

SEC. 202. ESTABLISHMENT OF TOBACCO EQUALIZATION TRUST FUND.

(a) IN GENERAL.—Subchapter A of chapter 98 of the Internal Revenue Code of 1954 (relating to Trust Fund Code) is amended by adding at the end thereof the following new section:

"SEC. 9505. TOBACCO EQUALIZATION TRUST FUND.

"(a) CREATION OF TRUST FUND.—There is established in the Treasury of the United States a trust fund to be known as the 'Tobacco Equalization Trust Fund', consisting of such amounts as may be appropriated, credited, or transferred to the Tobacco Equalization Trust Fund as provided in this section, section 9602(b) (relating to crediting of interest, etc.).

"(b) TRANSFERS TO TOBACCO EQUALIZATION TRUST FUND.—

"(1) IN GENERAL.—There are hereby appropriated to the Tobacco Equalization Trust Fund amounts equivalent to the following:

"(A) TOBACCO SUPPORT PROGRAM TAX.—The taxes received in the Treasury under section

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5701(b)(3) (relating to tobacco support program tax).

"(B) BALANCES OF NO NET COST TOBACCO FUNDS AND ACCOUNTS.—The unobligated balance, as of December 31, 1985, of each No Net Cost Tobacco Fund and each No Net Cost Tobacco Account established under sections 106A or 106B of the Agricultural Act of 1949, and any contributions made to any such fund or assessments paid to any such account after December 31, 1985.

"(2) SPECIAL RULE.—Paragraph (1)(A) shall be applied as if, on January 1, 1986, such paragraph applied to taxes which are estimated to be received during 1986.

"(c) EXPENDITURES FROM TRUST FUND.—

"(1) IN GENERAL.—Amounts in the Tobacco Equalization Trust Fund shall be available, as provided in appropriation Acts, for—

"(A) the reimbursement of the Commodity Credit Corporation for the amount of any net realized losses sustained after December 31, 1985, by such Corporation on loans made by such Corporation under sections 106, 106A, 106B, and 106C of the Agricultural Act of 1949 with respect to the 1976 and subsequent crops of tobacco,

"(B) the payment to the Commodity Credit Corporation of the amount of any distributions made by such Corporation to producers under the last sentence of section 106D(a) of the Agricultural Act of 1949,

"(C) the payment of all expenses of administration incurred after date of enactment—

"(i) by the Department of the Treasury in administering the tax imposed by section 5701(b)(3) (including determining the rate of such tax under section 5701(f)) and in carrying out its responsibilities with respect to such trust fund, or

"(ii) by the Commodity Credit Corporation in determining the amount of the net realized losses described in subparagraph (A) and distributions described in subparagraph (B), and

"(D) the payment to the general fund of the Treasury of amounts which the Secretary of the Treasury determines (after consultation with the Secretary of Agriculture)—

"(i) are in excess of the amounts necessary to make the payments described in subparagraphs (A), (B), and (C), and

"(ii) will not reduce the closing balance of such fund for any calendar year (determined in accordance with section 5701(f)) to less than $10,000,000.

"(2) NET REALIZED LOSSES.—For purposes of this subsection, the term 'net realized losses' means, with respect to any loan, the excess of—

"(A) the outstanding balance of any such loan for any crop of tobacco (including unpaid interest on such loan), over

"(B) the proceeds of the sale (if any) of all of the tobacco securing the loan.

"(d) SPECIAL RULES.—For purposes of this section—

"(1) ALL LOANS TAKEN INTO ACCOUNT.—For purposes of determining net realized losses with respect to any crop of tobacco, all loans with respect to such crop (including loans for overhead costs of the borrower) shall be taken into account.

"(2) CROPS OF TOBACCO.—The year of a crop of tobacco shall be the year of such crop for purposes of sections 106, 106A, 106B, and 106C of the Agricultural Act of 1949.".

(b) CLERICAL AMENDMENT.—The table of sections for such subchapter A is amended by adding at the end thereof the following new item:

"Sec. 9505. Tobacco Equalization Trust Fund.".

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on January 1, 1986.

○

WRITTEN TESTIMONY OF THE HONORABLE WALTER B. JONES
CONCERNING HR 2600

Messrs. Chairman, distinguished colleagues of the Agriculture Subcommittee on Tobacco and Peanuts and the House Ways and Means Subcommittee on Select Revenue Measures, I appreciate having the opportunity to submit testimony concerning HR 2600.

Simply put, I oppose favorable consideration of HR 2600. My reasons for opposing this legislation, which are detailed below, are summarized as follows:

-First and foremost, this bill does not effectively deal with the basic and real problems facing the tobacco program.
-Second, it opens the door for subsequent increases and/or earmarkings of the excise tax on tobacco products.
-Third, it directly contradicts the sunset provision of the Tax Equity and Fiscal Responsibility Act of 1982.
-Finally, the proposed time frame for providing assistance to the tobacco program is inadequate.

American tobacco has always been of superior quality, nevertheless, we do not enjoy a comparable competitive edge in either the domestic or export markets. I cannot look at the tobacco program in its current situation and pinpoint an exclusive area which is the "root of evil". Such pinpointing is impossible because the program and problems are multifaceted and interrelated.

From my understanding, HR 2600 would earmark 2¢ of the excise tax on cigarettes with the proceeds being utilized to pay the current debt owed CCC and replace the no-net-cost assessment in future years. In my humble opinion, this is not an effective method of addressing the problems at hand. It simply shifts the financial burden of the program from the taxpayer and producer to the taxpayer. The 2¢ tax gives the program a new coat of whitewash; it does not restore economic viability.

Why are assessments 25¢ and 30¢ per pound respectively for flue-cured and burley tobacco? Why is the level of flue-cured stabilization stock over 800 million pounds? Why has the percentage of imports for domestic consumption steadily increased? Why has the market share of exports steadily decreased? These are the questions that must be addressed and answered if the tobacco program is to survive.

These questions and more importantly, solutions to these questions, are not addressed in HR 2600. Although this bill provides for elimination of the staggering debt owed CCC by shifting the financial burden of the program to taxpayers and ownership of the stock to producers, it does not provide any guidance as to the marketability and ultimate disposal of stock. Even a casual review of the level of stock held by Stabilization since 1982 reveals we are faced with a buyer's market where large amounts of tobacco are not easily sold. It is tantamount to obtaining clear title to a broken down Edsel: who wants to buy it? In my opinion, timely disposal of both flue-cured and burley stocks in a manner so as not to disrupt the quota level is the most critical aspect of maintaining a viable tobacco program.

But even with timely disposal of these stocks, there must be a mechanism for preventing the level of stock from duplicating these quantities. Again, HR 2600 does not address this problem. What it does is create an amorphous, automatic purchaser to which no one is accountable. As such, I anticipate the level of Stabilization stock to continue increasing at current levels if not higher. Moreover, there is no incentive whatsoever in HR 2600 to create a more marketable environment for domestic leaf particularly if the level of the excise tax does not exceed 16c. According to statistics from USDA, the level of imports for both percentage of market share and actual poundage for domestic consumption increased after the tax was doubled in 1982. Earmarking 2c of the current level will not alter the purchasing methods of tobacco buyers. At the same time, increasing the tax to a level which would be effective will surely decrease consumption to the point of killing the program.

Another important element in the tobacco program is the price support level. Under HR 2600 the price support levels would not change. On Tuesday of this week, several members of the Flue-Cured Tobacco Cooperative Stabilization Corporation visited with me and requested that I do all within my ability to assist in requesting the Secretary of Agriculture to administratively lower the price support for flue-cured from $1.70 to $1.40 per pound prior to the opening of the markets. The Georgia and Florida markets open Wednesday, July 24, 1985. Their concern: marketability of the 1985 crop.

Absent immediate administrative relief, approximately 200 million pounds of flue-cured tobacco will go under loan to Stabilization bringing the total to over 1 billion pounds. Stabilization cannot handle this level of tobacco at current prices. Obtaining a marketable price support level which does not reduce the profit margin of the grower is extremely important, if not mandatory.

HR 2600 assumes that the 2¢ tax will improve market conditions; it will not. Greater amounts of tobacco will go into our "reserves" while the market continues operating under current conditions. This scenario is not healthy for any segment of the tobacco community and will in the long run be extremely harmful to the very existence of the program.

My second point of opposition to this bill is that it opens the door for subsequent increases and/or earmarkings of the excise tax on tobacco products. The effect of earmarking this tax cannot be viewed in a vacuum. There are numerous groups who would like nothing better for the tobacco program to receive a bite of the apple so that they too can better attempt to utilize the tax as the ultimate benefactor of various programs. The mere consideration of an earmarking establishes what I believe to be an extremely dangerous precedent which will lead to increased taxes or loss of funds from the general revenue fund. I know some tobacco growers support using a portion of the tax for tobacco purposes but I would be hard pressed to believe that these same growers are willing to underwrite, at the levels requested, programs such as Social Security or Medicare.

Approximately two weeks ago, I submitted testimony to the House Ways and Means Committee urging that the promise made three years ago regarding the sunset of the excise tax from 16¢ to 8¢ on October 1, 1985 be honored. Without a dramatic loss of general revenue funds, the excise tax must be maintained at 16¢ or more likely increased to accomodate the minimum 2¢

earmarking. Such action would contradict the mandate of the sunset provision of TEFRA and constitute a breach of the commitment made in 1982. In addition, HR 2600 contemplates a flexible excise tax. Given the circumstances referred to earlier regarding the increased level of stabilization stocks, it is quite possible that the earmarking will have to be increased from the original 2¢ resulting in an additional increase in the overall excise tax or a loss of money from the general revenue. Neither situation is acceptable given the sunset provision of TEFRA and the constructive efforts being made toward tax reform.

Tangential to this point is the question "who really will pay for the tobacco?" The news release announcing introduction of HR 2600 indicated that tobacco companies would be the payors when it stated "This bill ensures that the tobacco companies will bear part of the burden of the tobacco program". I submit that ultimately the payor will be the American taxpayer regardless of the level of the tax.

On July 24, 1985 the first flue-cured markets will open in Georgia and Florida. There is no doubt in my mind that this is the most critical marketing season the tobacco community has ever encountered. Critical to the point of, absent immediate assistance, possible termination of the program. As I mentioned earlier, the Board of Directors of the Flue-Cured Stabilization Corporation are in Washington this week requesting assistance in lowering the price support prior to July 24, 1985. Time is of the essence. HR 2600, if enacted, would not become effective until January 1, 1986 and I do not anticipate that revenue for the Tobacco Equalization Fund would be forthcoming until a much later date. By that time, the question of whether this is the best method of addressing the tobacco situation will be moot.

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In conclusion, HR 2600 must be viewed as an absolute, last resort answer for the tobacco program. With other alternatives currently being considered, both legislative and administrative, the time is not ripe for consideration of this bill. Although I speak only for myself, I believe this position is supported by my colleagues from other major tobacco producing districts as is evidenced by the lack of cosponsors for HR 2600 especially from North Carolina and Kentucky. I respectfully request that members of both Subcommittees refrain from favorable consideration of HR 2600.

Walter B Jones

July 18, 1985

WALTER B. JONES
Member of Congress

***

Mr. **Rose.** I would like to ask now that Chairman Rangel take the gavel and make any comments that he would like to make.

OPENING STATEMENT OF HON. CHARLES B. RANGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Rangel.** Thank you, Mr. Chairman.

As all of you know, the Committee on Ways and Means is reviewing a complex tax reform package. In all probability we will soon be dealing with the question of excise taxes; which naturally will include the tax on cigarettes.

In the past, we have worked very closely with the Committee on Agriculture, especially the Subcommittee on Tobacco and Peanuts, to make certain that what we are doing over there in taxes does not adversely affect the tobacco industry, more particularly the tobacco farmer, and even more specifically, the smaller tobacco farmer. That is why the chairman of our committee has agreed that I should join with Chairman Rose in a review of H.R. 2600, to make certain that when the Subcommittee on Select Revenue Measures, as well as the full Committee on Ways and Means reviews the question of cigarette taxes, we do it with a full understanding of what impact this is going to have on the tobacco industry, which certainly includes the large and the small tobacco farmer.

In the past, we have had a very close working relationship with this subcommittee, especially with Charlie Rose. We expect to have that same close cooperative working spirit as you work out the best possible solutions that you can in your committee. You can depend on the support of the Committee on Ways and Means in working to that end.

Thank you for this opportunity, Mr. Chairman.

Mr. **Rose.** Thank you, Mr. Chairman.

At this time we are very honored to have as our first witness the Honorable Albert Gore, the U.S. Senator from Tennessee. Senator Gore is an original cosponsor of H.R. 2600.

Senator Gore, we thank you for taking time from your schedule for coming here and to speak before us on H.R. 2600.

STATEMENT OF HON. ALBERT GORE, JR., A U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator **Gore.** Thank you very much, Chairman Rose, Chairman Rangel, members of both subcommittees.

It is an honor for me to be here to testify this morning on an issue of profound importance in the jurisdictions of both subcommittees. It involves the very serious problems the tobacco program has, and the potential impact on tobacco growers and taxpayers. You have an illustrious witness list I see here, and you are going into this in appropriate depth.

I would commend to your attention later on the testimony of a good friend of mine, James Putnam, from the Tennessee Farm Bureau, but in light of the testimony that he and all these other witnesses are going to give, I am going to try to keep my remarks brief this morning; but I think it is important in addressing a subject like this to lay out the history of the tobacco program, and the factors that have created the current crisis.

This program was begun 50 years ago during the New Deal, of course, by President Roosevelt, to control tobacco production and stabilize prices in an effort to alleviate the desperate poverty in which Appalachia and surrounding geographical areas were trapped. Within the living memory of people still alive today, the poverty, hunger, and malnutrition in these areas of our country was just horrible.

The tobacco program came in, along with other improvements, and dramatically changed the situation. This program has helped spread the economic benefits of tobacco production from a handful of highly concentrated and enormously profitable manufacturing companies to a very large number of small family farms.

The program protects the small grower from the otherwise unrestrained and enormous market power of a few large companies. It has lifted the standard of living for many individuals, and provided a means for earning a modest income.

Take my own State of Tennessee, as an example. We have 100,000 tobacco farmers in Tennessee, and the average tobacco field is less than 2 acres, 1.9 acres. So what we are really talking about when we are talking about this program is a program that benefits hundreds of thousands of small family farms in the Southern United States and elsewhere.

Now, let me state clearly and unequivocally, therefore, my concern is for protecting the grower. The companies are not the ones that need help in the current crisis. They are going to do fine. And no one is talking about outlawing the smoking of cigarettes. You understand that the question is not whether or not people are going to smoke; so as long as we have freedom of choice in that area in this country, some people are going to smoke cigarettes, so the question is where will the economic benefits of growing tobacco go?

Will they continue to go to these small, family farmers or will they go, instead, to the concentrated manufacturing companies?

Well, the program is in jeopardy, partly because those companies have abandoned the small growers. Now, over the years there has been a kind of an alliance, but circumstances change, and sometimes that alliance is really strained. In this case the companies have decided to obtain ever-increasing quantities of tobacco offshore, tobacco that these American companies are encouraging Third World countries to grow at the expense of rain forests and soil conservation techniques, in some cases, and certainly at the expense of American tobacco farmers.

As a result, large quantities of surplus American tobacco, 1.3 billion pounds of Flue-cured and burley tobacco combined, have accumulated in the last several years. These surpluses threaten to bankrupt the farmer-financed program, and unless proper action is taken, the tidal wave of tobacco that is swamping the program will stamp taxpayers, also.

How do we deal with the problem? Is there a way to save the tobacco program, in a form beneficial to growers, without adding $1 billion to the budget deficit?

The companies have developed one proposal. It calls for slashing the support price and linking it to the market average in future years. It would also continue the no net cost assessments that have proven so onerous to growers because of the companies' actions, and this bill would give companies complete and total control of the quota system under which tobacco is grown.

They would set the quota, and under Federal law, the Department of Agriculture would be required to set the quota within 3 percent, either way, of what the companies told the Government the quota should be in that year. In effect, the companies would completely control the market under their proposal, and you would see the American quota squeezed down, down, down, and the imports going up, up, up. Growers would no longer be protected from the market power of the companies. The companies' proposal would subject small growers to this enormous market power; this proposal, if enacted would fly in the face of the historical reason for the program's existence, and the proposal does absolutely nothing about imports, as I mentioned a moment ago.

During negotiations leading to the development of that proposal, the companies flatly stated that they refused even to discuss imports. So this proposal was very dubious from farmer's point of view in my judgment, and it is disastrous from the taxpayer's point of view.

Under the industry proposal, the companies would be authorized by legislation to collusively purchase the surplus tobacco at an outrageous discount of up to 90 percent; that would cost the Treasury and the taxpayers $1 billion. There would be no source of revenue to compensate for this loss; and for those tobacco farmers in Tennessee and North Carolina, and elsewhere; Kentucky and elsewhere, who believe for one minute that the House and Senate of the United States are right on the verge of adding $1 billion to the budget deficit for the tobacco program, come on, let us wake up and think about what the realities of this situation are. This is just not in the cards.

Yes, it is true, the taxpayers would suffer a loss if nothing was done, but ladies and gentlemen, members of these two subcommittees, the Congress is not going to add $1 billion to the deficit in order to deal with a program that we told the Congress the farmers were going to finance.

Now, Chairman Rose and I have developed an alternative that seeks to avoid these pitfalls, and seeks to take a more realistic view of this situation. It is fiscally responsible. It will help American farmers grow more tobacco, and it will continue to spread the economic benefits of tobacco among the small growers.

S. 1205, which I have introduced, is the Senate version of the bill; it is identical; would provide 2 cents of the excise tax to fund the tobacco program. The legislation would restore the tobacco program to a sound financial footing. The tax would increase if imports rose and the cost of the program increased, or fall if imports dropped, and the cost of the imports decreased. It would be pay-as-you-go budgeting in practice.

We must also consider the consequences I mentioned a moment ago, if no actions are taken, and events are left to run their course. Under current law, farmers pay the cost through no net cost assessments despite the diligent efforts of stabilization cooperatives, including Bill Myers of the Burley Stabilization Corp. from Knoxville, who will testify later today.

In fact, Bill Myers and others have done well to hold the cost as low as they have. They deserve tremendous credit, but the cost is still skyrocketing because the surplus is so large. Burley tobacco no net cost assessments have increased from 1 cent per pound in 1982, and they told us in the beginning it is going to be 1 or 2 cents; don't worry about it. It has now gone up to 30 cents per pound this year, and unless action is taken, the assessment for next year could be 50 cents per pound, or higher.

Now, as everyone knows, farmers will have the opportunity at referenda in December, for Flue-cured tobacco, and February of 1986 for burley tobacco, to decide whether they want the tobacco program to continue under these conditions. Farmers will vote. From discussions I have had with growers in Tennessee, I believe that the program will be voted out rather than continued with 50 cents per pound assessments.

To begin with, if this occurs, the smoking of cigarettes will not decline by a single pack. Everyone ought to be clear about that. The tobacco program has no effect on the number of cigarettes consumed in this country. In fact, if anything, it probably holds it down a little bit, but if the program is voted out, you will not see any reduction in the number of cigarettes smoked; but you will see an increase in the budget deficit of over $1 billion, and you will see a dramatic decrease in the cash-flow of these small farmers, particularly in the Southeast, and you will see land prices plummet, and you will see revenues to local governments go down, and you will see a genuine serious fiscal crisis in many, many parts of the Southeastern United States.

So in short, opponents of the tobacco program do taxpayers and the U.S. Treasury no favor by advocating the end of tobacco price supports. This program is the only farm commodity program that has never been voted out by producers. If tobacco farmers decide on their own to end the program, it will not be a signal that they do not want or need a program, but rather that the companies have made the program operate in an unacceptable manner. Growers will suffer severe hardships without a tobacco program.

The program that I advocate along with Chairman Rose will deal with these problems in a fiscally responsible manner. It is in my view a common sense solution that will preserve the tobacco program. There are no tricks, and there are no hidden costs, and no wildly unrealistic assumptions.

As we all know the question is not whether tobacco will be grown; the question is who will grow it. I come down on the side of the small farmer, the one currently growing tobacco. I wish to close with that.

Thank you very much, and I will be happy to answer any questions, if you want me to.

[The prepared statement of Senator Gore appears at the conclusion of the hearing.]

Mr. Rose. Thank you, Senator, for obviously, from my perspective, an excellent statement, and reason for these two bills being introduced.

Mr. Chairman.

Mr. **Rangel**. Thank you, Senator, for a very informative statement.

Regarding the 2 cents tax, on what tax are you talking about; 8 cents, 16 cents?

Senator **Gore**. That is a separate question. We are talking about the current law, within the current law, with those 2 cents, and that is separate from the discussions which I know are already underway in the Ways and Means Committee, about what happens to the other 8 cents.

Mr. **Rangel**. So you are saying that when we were talking about 2 cents on 8, 2 cents on 16 cents, or part of that; that you would support the legislation?

Senator **Gore**. I personally would, and I think you would find, and there is thin ice all over the place where this issue is concerned, but just so you would have a clear understanding of what the situation is, I believe that you will find a view among many tobacco growers that the 2 cents we are talking about is the best way to solve this problem.

There is a wide-ranging debate within the tobacco community about how to solve this problem, but I firmly believe that among those growers who have taken a close look at it, you will find that this is their preferred option.

Mr. **Rangel**. How wide apart are the groups? Is there a proposed alternative to the solution that you and Chairman Rose have?

Senator **Gore**. Yes; there are two bills on the agenda. One bill is the one I have been discussing here. The second bill is one that originated with the manufacturing companies, with the large tobacco companies, and it has been introduced in the Senate. I do not believe it has been introduced in the House. I do not believe it has anybody on it over here; but what it would do is, it would give the companies the exclusive right to control the quotas, and it would give the companies an antitrust exemption, and a legal right to collusively buy the surplus which is causing these costs now; but at a 90 percent discount.

Since the taxpayers stand to lose, then that proposal would result in an increase in the budget deficit of $1 billion. Now, you will hear some differing views on that today, but my analysis of it is, that would cost the taxpayers about $1 billion.

Mr. **Rangel**. The tobacco growers associations have had both of these plans before them; will they be voting on this type of plan to decide which one they would prefer?

Mr. **Rose**. If I can come in here, there are groups that we will hear from today with regard to the bill introduced this morning, and there are some groups that will speak in favor of the other proposal that originated with the companies; but the referenda that he referred to in his testimony——

Senator **Gore**. That is separate.

Mr. **Rose**. That is where the growers even wanted there to be a program, and I think Senator Gore is saying things are as messed up as they appear to be in some people's minds, there is a chance that they might vote it out.

Senator **Gore**. You see, in a lot of these commodity programs, the farmers are given the right to see whether they want the program to continue or not. Some are voted in and out and this one has always been approved by the farmers.

You have the Flue-cured, the burley, in December the Flue-cured farmers will vote; and in February, the burley farmers will vote. You have got this big surplus; you have to finance it; you have to store it; and that cost is all on the backs of the farmers now, and it is rising; and they are assessed so much per pound of tobacco. It has gone from 2 cents, 30 cents, 50 cents, maybe more; and they cannot stand that.

Under current law, if they vote at the turn of the year to end the program, then they also get out from under that burden, and you know where it goes? To the taxpayers. So unless some kind of bill is passed, the taxpayers will end up bearing a burden in any event.

Mr. RANGEL. And it is your considered judgment, after reviewing the other proposal, that as a Senator representing one of the larger tobacco-producing States, H.R. 2600 is in the best interest of the tobacco farmers, specifically the smaller tobacco farmers?

Senator GORE. There is absolutely no question in my mind. No question whatsoever.

Mr. RANGEL. Thank you, Senator.

Mr. ROSE. Thank you, Senator.

Any further questions?

Mr. Whitley.

Mr. WHITLEY. Senator, you recall that the Ways and Means Committee decided to double the cigarette tax from 8 to 16 cents. We were all assured this was a temporary revenue-raising measure that would sunset at the end of this current fiscal year. The fact that the cigarette tax was doubled almost immediately after the no net cost program was approved had an impact on the market and the purchase of tobacco.

The two things happened very close together, and it was obvious at the beginning of the next season that the buyers were not buying tobacco to the extent that they had previously.

Now, if the 16 cents tax is not sunset at the end of the current fiscal year would it not be simple equity to earmark a small portion of that tax to make up for the impact that we had when it was doubled?

Senator GORE. I think that is stated very, very well. It would be an act of fairness on the part of the tax-writing committees if they decide to take that course of action to recognize the problems that are in the tobacco area, and say, and some of us in the tobacco area say, look, we know what your problem is, and a lot of tobacco farmers are not kidding themselves in saying there is real pressure on that other 8 cents, and if they take that approach, the committees could say, look, the earmarking of this 2 cents is the way to solve this problem.

We are all one country. Some people give a little, other people give a little. Yes. I think that is absolutely true and, you know, another factor to consider in this is that so many States, and even local governments have passed measures saying that it is going to be 16 cents in their jurisdiction; no matter what the Federal Government does. If the Federal Government does it, then a lot of these States are going to step right in.

So that is another thing that we need to consider, also, and as far as the impact on consumption is concerned, the price elasticity figures indicate that as far as 2 cents is concerned, there is practically no impact at all. Even 8 cents, you are talking about with the 16 cents, you have got about 6 percent impact, if I am not mistaken.

In order to have a real serious impact, you are talking about numbers far larger than anybody has discussed.

Mr. **Rose**. Congressman Thomas.

Mr. **Thomas** of Georgia. Senator Gore, I want to commend you for your statement. I, too, am in support of this legislation. Did I not hear you correctly, and this is my understanding in the House, and I feel about the reaction of this House, if we tried to sell this body on a program that would result, regardless of how we might describe it in the loss of around $1 billion to the taxpayers of this country, or to CCC, did I not understand you to say that, of course, this would be a very unfavorable mark to tie to the back of legislation, and to the issue of tobacco, and you feel this would be a great liability for it. Am I hearing you correctly?

Senator **Gore**. Yes, I think you have put your finger on the heart of the matter. If we could waive a magic wand and say this problem would just go away, that is fine. But the alternative to this bill is not a magic wand. It is $1 billion increase in the budget deficit, at a time when budget negotiations may have broken down, we hope not, but they may have broken down, producing what the chairman said would be chaos in the efforts of the House and Senate to deal with these budget considerations.

We know what the deficit is doing to the value of the dollar, and the trade deficit, and the GNP for the figures for the second quarter came out this morning, 1.7 percent; only half of what the flash estimate was. Manufacturing is in a recession. This country has got to deal with the budget deficit, and all of our colleagues know that.

That is topic No. 1. Every time we go to speak to any civic club, school, or anywhere, and you are telling me that we can go to our colleagues in the House and Senate, and say, guess what? We have a great idea for you. We are going to increase the deficit by another $1 billion.

Now, let us look at the other side just briefly, because actually, that does oversimplify the matter, because if nothing is done, the taxpayers will incur a large cost in any event; and people with fair minds have to look at that; but for us to go to the Congress and say, "Either you increase the deficit by $1 billion this way, or you will increase it by $1 billion that way," what kind of a position is that for us to take with our colleagues?

I submit to you that it is unrealistic, and under those circumstances, they are likely to say, well, you are telling us it is going to be $1 billion increase either way. You told us a few years ago that you were going to cover the cost of this program. If that is the way you want it, we are not going to pass anything you want us to.

Mr. **Thomas** of Georgia. We were told that the CCC was totally out of funds, and had stopped all purchases. At this time, when CCC is totally, its funds totally diminished, we are looking for another $1 billion loss.

Thank you for your statement. Let me bring one other question up to you.

As I see it, this 2-cent excise tax, I am certainly in favor of this, and I think we have very strong rights to request; that it be a very strong case for requesting this.

To me, what the 2 cents is, and one of the strongest points, it is literally a user fee, and it would be fairly and equally borne, not only by the industry, where the person who purchases a pack of cigarettes pays 2 cents, this 2 cents goes to it, but at the same time it is indirectly passed right on to everybody involved; as Senator Helms liked to refer to them, everybody in the tobacco family; those who grow it, process it, those who buy it, and sell it; it will be fairly and equally borne, it is a user fee.

So for once and for all we can say to the people in this country, we are now letting tobacco carry its own structure. Would you agree with me?

Senator **Gore**. I certainly would, and first of all, putting it not only on the backs of the small farmer.

Mr. **Thomas** of Georgia. And it certainly passes onto, and the farmer picks up, his share of the cost of this program as well. We are all bearing in the cost, sharing in the cost.

Thank you, Senator.

Mr. **Rose**. Any other questions?

Senator, we thank you very much for an excellent statement, and your time, sir. Our next witness is the Honorable Pete Stark, a Member of Congress from California. We have been informed that Congressman Stark is unable to be with us. He submitted a statement for the record.

I would just happily read one part of it on the second page. He says:

"My point in testifying today is to say that I would support temporarily earmarking a small part of the 16-cent tax to a form of adjustment assistance—like trade adjustment assistance, if you will—to help farmers move out of this crop and into new lines of production and land use."

We thank him for that observation.

[The prepared statement of Mr. Stark appears at the conclusion of the hearing.]

Mr. **Rose**. At this time I would like to ask, is Mr. David Thompkins here?

Will Mr. Earle Bedenbaugh, Deputy Administrator for State and County Operations, of Agriculture, and Mr. Jay York, Acting Director of Tobacco and Peanut Division, will you please come forward.

Go ahead, Mr. Bedenbaugh.

STATEMENT OF EARLE BEDENBAUGH, DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JAY W. YORK, ACTING DIRECTOR, TOBACCO AND PEANUTS DIVISION, AND DAVID NICHOLS, FISCAL DIVISION

Mr. **Bedenbaugh**. Messrs. Chairmen and members of the subcommittees, I am Earle Bedenbaugh, Deputy Administrator for State and County Operations, Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. I have with me today J.W. York, Tobacco and Peanuts Division, and David Nichols, Fiscal Division.

I am glad to be with you to discuss H.R. 2600, which would amend both the Agricultural Act of 1949 and the Internal Revenue Code of 1954.

Under the provisions of H.R. 2600, tobacco producers would no longer be liable for losses resulting from the sale of tobacco pledged as collateral for price support loans. Instead, such losses would be covered by a fund generated from excise taxes on cigarettes.

Currently, the tobacco program is operated under provisions of the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949. The 1949 act was amended by the No Net Cost Tobacco Act of 1982 to require that the tobacco program be carried out at no net cost to the taxpayer, other than administrative expenses common to the operation of all price support programs. Under the provisions of the 1949 act, as amended, a fund or account is established through contributions or assessments from tobacco producers.

The fund or account is used to ensure that the Commodity Credit Corporation will suffer no net losses under its price support loan agreements with the tobacco associations with respect to the 1982 and subsequent crops of quota tobacco. CCC absorbs any net losses under its loan agreements with tobacco associations with respect to the 1981 and prior crops of quota tobacco.

H.R. 2600 makes the no net cost provisions of the 1949 act inapplicable to the 1985 and subsequent crops of tobacco. The bill specifies that CCC would be reimbursed for any net losses sustained after December 31, 1985, by the Corporation with respect to loans made for the 1976 and subsequent crops of tobacco from a fund generated from excise taxes on cigarettes.

The bill would amend the Internal Revenue Code of 1954 to one, impose an additional excise tax on cigarettes and two, establish in the Treasury of the United States a trust fund to be known as the Tobacco Equalization Trust Fund which would be used to reimburse CCC for such net realized losses.

The Department opposes enactment of H.R. 2600 for several reasons: One, this administration opposes tax increases of any type; two, the bill does not address the problems associated with the level of price support for tobacco in relation to world prices of tobacco; three, tobacco producers or associations would have no incentive to control operating costs; and four, cigarette users would pay for losses incurred by associations handling tobacco which is used primarily for products other than cigarettes; for example, cigars, chewing tobacco, smoking tobacco, and snuff, since there is no provision in the bill for a tax on other tobacco products.

This concludes my prepared statement. I will be happy to respond to any questions members may wish to ask.

Mr. ROSE. Thank you very much. I did not expect you to be in favor of this, but we wanted to give you the courtesy of coming and telling us why.

I do understand your administration's opposition to tax increases of any type, but the President's tax reform package that he has presented to Congress is about $12 or $13 billion short; and it is going to be some scrounging around for other revenue to kind of get that revenue-neutral.

We know the bill does not deal with all the problems of the price support programs. We did not intend it to. Other things, such as price support production, need to be taken care of, and will be added at a later time.

I disagree with your other two points, but I appreciate your coming in and stating them.

Any comments from any members of the panel?

Mr. **Rangel**. Senator Gore indicated that the farmers voted no on the program. Can you inform this Member as to what would happen to the indebtedness already incurred by the tobacco farmers if there were no program at all?

Mr. **Bedenbaugh**. I would ask Mr. Nichols to respond to that.

Mr. **Nichols**. What would happen would be that CCC would continue to sell any tobacco that it has currently under loan, and all the sale proceeds would be applied to the outstanding balance and accrued interest, and then at that point, if there are no other resources to get any other funds, those losses would go to the CCC.

CCC would go first to the tobacco fund or account, take all the money that would be available there, and if that does not liquidate the loan, then CCC would have unrecoverable losses, and those would go to the CCC. The anticipation is that the fund or account would cover those losses, though.

Mr. **Rangel**. And they are broken down, the CCC?

Mr. **Nichols**. They are without borrowing authority.

Mr. **Thomas** of California. I understand on your four points that you are commenting, No. 1 is a philosophical decision that you have made. Talk to me about No. 3 and No. 4. Why would there be no incentive to control operating cost?

Mr. **Bedenbaugh**. I will ask Mr. York to respond to that, if he will.

Mr. **York**. Mr. Thomas, I guess we would go back to what we had prior to 1982, and I would not say that the association would not be restrictive in their management of the funds. I do not really understand what the intent of this comment is.

Mr. **Thomas** of California. You do not understand the intent of the comment that is listed as four points of the Department's opposition to H.R. 2600?

Mr. **York**. No incentive to control cost.

Mr. **Thomas** of California. It is in your testimony. No comment at all?

Mr. **York**. There are association managers here who might feel free to comment.

Mr. **Thomas** of California. Who had the hand in putting this together? Any three of you?

Mr. **Bedenbaugh**. Would you like to comment on that?

Mr. **Nichols**. One of the things that we would look for is that currently, because there are costs to the tobacco bill, we have been working very strongly with all of the associations to reduce cost administratively as much as we can, by improving the way they operate their cash; the way they operate their inventory, and the way the Government deals with them.

With the loss, the responsibility of that loss is passed on, it does not mean that the associations would have to do the same kind of watch-dogging and such on their own cost. They could basically pickup any kind of cost, and go back to the business that they did prior to the 1982 type of activity, and any expenses that are incurred, any losses that would be incurred, regardless of what the costs may be, would be passed on to the people who would be paying the taxes.

Mr. **Thomas** of California. Now, in your role as a fiscal officer, do you oversee funds at all?

Mr. **Nichols**. Yes, I do.

Mr. **Thomas** of California. Are they your funds?

Mr. **Nichols**. They are CCC funds.

Mr. **Thomas** of California. Are they your personal funds?

Mr. **Nichols**. As a taxpayer they would be, sir.

Mr. **Thomas** of California. So the funds that these people would receive, as taxpayers, would be their funds as well?

Mr. **Nichols**. I do not follow you.

Mr. **Thomas** of California. Well, you oversee funds. They are not really your moneys, and I assume that you have a degree of professionalism to what you do, and you are not profligate in the way in which you deal with those funds.

Mr. **Nichols**. Yes, sir.

Mr. **Thomas** of California. Why would we assume, then, that there would be no attempt at all to control operating costs, because it is not their money? Is that the pitch?

Point No. 4, what percentage of tobacco today, in terms of associations handling tobacco, is cigarette tobacco versus cigar, chewing, smoking tobacco, and snuff? Do we have any of those figures?

Mr. **Bedenbaugh**. I do not believe we have those figures today, Congressman.

Mr. **Thomas** of California. But you have them available in the shop.

Mr. **Bedenbaugh**. We will be happy to supply them for the record.

Mr. **Thomas** of California. It is a telling point if cigarette tobacco consumption is 30 percent of overall tobacco, but if it is 98 percent, or less, it becomes less a telling point.

Mr. **Rose**. Will the gentleman yield?

Mr. **Thomas** of California. Sure.

Mr. **Rose**. The Director of the Flue-Cured Tobacco——

Mr. **York**. Over 90 percent.

Mr. **Thomas** of California. So if a tax were levied, we would be hitting 90 percent of the tobacco consumption. To me, that is less meaningful than if it were 30 or 40 percent.

I have been trying to encourage chewing, but it has not been picked up much.

Thank you very much for your testimony.

Mr. **Rose**. Thank you, Mr. Thomas.

Mr. Tallon.

Mr. **Tallon**. Thank you, Mr. Chairman.

Mr. Bedenbaugh, I appreciate your testimony this morning. I would like to ask you a question, though.

The proposal that is in the Senate, what is the administration's official stance on that?

Mr. **Bedenbaugh**. I do not believe we are here to discuss that this morning, Mr. Congressman.

Mr. **Tallon**. We have heard your opposition to this proposal, and I think keeping everything in context, if you developed a position on the other proposal, I would certainly——

Mr. **Bedenbaugh**. I am sure there are official positions. The administration feels that we need to move toward market clearing price support levels, and if this other bill would accomplish that, I am sure the Reagan administration would be in favor of it, because the position is that we should get back into the market; we should get in the export market, and farmers that I talked to stated that they would like to get back to the business of growing tobacco, and I am sure the position to do that——

Mr. **Rose**. Would the gentleman yield?

Mr. **Tallon**. Yes.

Mr. **Rose**. We agree with you that the market prices are too high, but we are trying to talk about how you get rid of the surplus. Senator Helms is going to have a hearing on Monday as to the proposals developed by the companies. Will you be over there to testify in that regard?

Mr. **Bedenbaugh**. Probably not; no.

Mr. **Rose**. Will any of you be over there?

Mr. **York**. We have not been asked.

Mr. **Rose**. What is the administration's position on Senator Helms' bill, on the $1,200 million price tag? Is there a position?

Mr. **Bedenbaugh**. Hopefully the legislation would clear it out, with the tobacco companies agreeing to buy surplus.

Mr. **Rose**. What is your position on the cost of that legislation so far as the deficit? You heard what Senator Gore said, did you not?

Mr. **Bedenbaugh**. Yes.

Mr. **Rose**. And this administration hates deficits just about as bad as it hates taxes, does it not?

Mr. **Bedenbaugh**. I am sure it does.

Mr. **York**. The Department has not taken a position on this, Mr. Chairman.

Mr. **Tallon**. The Department has not taken a position on the buy-out proposal; is that correct?

Mr. **York**. They have not taken a position on S. 1418.

Mr. **Tallon**. But they have taken a position on H.R. 2600.

Mr. **York**. Yes.

Mr. **Tallon**. Is the Department still planning to introduce legislation that would abolish the tobacco program?

Mr. **York**. I do not know, sir.

Mr. **Bedenbaugh**. Not to my knowledge not to abolish the tobacco program.

Mr. **Tallon**. Secretary Block, did he not have legislation that he was considering introducing that would abolish the tobacco program?

Mr. **Bedenbaugh**. Not to my knowledge.

Mr. **Rose**. Mr. Cooper.

Mr. **Cooper**. If the administration does not have an official point of view on the Helms bill, does Secretary Block have any contingency plan as to what he would do when the Flue-cured market opens at the end of the month, since it seems there would not be any legislation passed by Congress before then?

Mr. **Bedenbaugh**. You mean Commodity Credit funds to keep the market open?

Mr. **Cooper**. Yes.

Mr. **Bedenbaugh**. I guess that is something we will have to address when we get to it. Obviously, if they are not available, I think there is a problem. Perhaps it can be held open a week in order to make commodity funds available.

Mr. **Cooper**. Is that the reassurance that the administration provides to the tobacco farmers?

Mr. **Bedenbaugh**. I guess at this point that is all the reassurance that we would have.

Mr. **Cooper**. Thank you, Mr. Chairman.

Mr. **Rose**. Mr. Thomas.

Mr. **Thomas** of Georgia. Mr. Chairman, I think it is ironic that the administration would have the position here against taxes that would prevent a $1 billion-plus increase in the deficit, and yet not have a position on something that would increase the deficit by $1.2 billion. That seems to be a bit ironic, but I will not belabor that point.

The comment I want to make is one to let this group here, and let you gentlemen know that I am totally committed to doing whatever it takes to get our tobacco back to a market clearing price, and I do not think there is a member of our committee who is different on that. I think we expect our fair share.

There is an article in the paper this morning, as how I was part of four people who called the Secretary and asked him—the Secretary yesterday, and asked him to rollback the price to 440, and the third and fourth positions just do not hold water.

Everybody here today, they seem to be very reluctant to be a part of any hearing, but we have a lot of people here who will carry the word on that we are all committed to getting our market back to a market clearing price.

We are talking about a proposal here that is going to allow everybody to share fairly in the cost of maintaining a program by doing all these other things here, and I want to be clearly understood that I intend to do whatever it takes to see that we hold down administrative cost, we hold down the cost of the program, we do not allow CCC to build back up, that we are going to grow quality tobacco, and I will work to put the incentives in ensuing legislation to see that we grow marketable tobacco.

Now, we are going to have to work together. I think the tobacco family includes the growers, the people who represent them, and certainly the industry; and so I am committed to a fair shake for everybody in here, and I think this committee is.

Mr. **Rose**. Thank you very much.

Gentlemen, thank you very much for being here.

In the interest of time I am going to ask that we speedup our procedure a little bit. Some of us have commitments at noon that we must make.

Mr. Fred Bond, would you come to the table, and share the table with Mr. Bill Myers from Burley, and Mr. Jim Oliver, the master of the North Carolina Grange.

We will hear from you individually, but in the interest of time, we will move you to the front together, and it will be a great help. Thank you.

If you are ready, I will call on Mr. Bond. We would appreciate it if you would submit your prepared statement for the record, and then summarize it the best you can. I will leave that up to you, because you know what you feel like you want to say to us. Before I let you start, I want to put in the record a statement by Mr. James Graham, the commissioner of agriculture for the State of North Carolina. Mr. David Tompkins of his staff is here. We want to thank you for being here.

Mr. Graham is the commissioner of agriculture for the State of North Carolina. On page 2 of his statement he says:

> I would support a targeted excise for tobacco growers only in the absence of any administrative action to assist the farmer, or upon the failure of other legislative initiatives to gain passage in the Congress. Today, I still maintain that position.

We thank you for that, and the statement will be made a part of the full record.

[The prepared statement of Mr. Graham appears at the conclusion of the hearing.]

STATEMENT OF FRED G. BOND, GENERAL MANAGER, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP.

Mr. **Bond.** Mr. Chairman, I am Fred G. Bond, general manager of Flue-Cured Tobacco Cooperative Stabilization Corp. Stabilization, with headquarters in Raleigh, NC, is the grower-owned cooperative which administers the price support program for Flue-cured tobacco under contractual agreement with the U.S. Department of Agriculture's Commodity Credit Corporation.

Practically all individuals who share in the proceeds from the production and marketing of Flue-cured tobacco, whether landowner, tenant, or share-grower, are members of the cooperative. Under the contractual agreement with CCC, Stabilization makes loans to eligible Flue-cured growers whose tobacco does not bring a minimum price established for each grade at the auction market. Funds to advance loans to growers are borrowed from CCC. The primary objective and purpose of Stabilization is to provide a stable and orderly market and assure the growers a reasonable return for their crop at the market place.

Subsequent to the auction, all growers' tobacco consigned to Stabilization for loan is transported to processing facilities for reweighing, regrading, threshing, redrying, and packing into containers for shipment to storage.

At the conclusion of each marketing season, selling prices are established for each grade. Price schedules, conditions of sale, and inventories are made available to all buyers of tobacco. As sales are consummated, all proceeds are immediately applied to repayment of funds borrowed from CCC. This process continues until all tobacco from any crop is sold; it may require several years to close out a crop pool.

Significant and major changes have been made in the tobacco program over the years. The most significant change—with the greatest impact—was the no net cost legislation passed by the Congress in July 1982 and modified again in 1983. This legislation was the only option tobacco growers had for continuing a tobacco program; the other option was no program at all.

The effect of this legislation transferred the cost of the program to the grower, beginning with the 1982 crop. For 36 crops, 1946–81, the price support program was operated on a nonrecourse basis, which meant that when a loan was made by Stabilization to any grower for tobacco delivered to Stabilization, such growers would not be financially responsible for repayment of the loan if the proceeds from sale of such tobacco were insufficient to repay the CCC all principal borrowed by Stabilization to make the loans initially, plus interest.

With the passage of the no net cost tobacco legislation in 1982, Flue-cured tobacco growers have paid an assessment on every pound of tobacco sold, beginning with the 1982 crop, to ensure that the Government would suffer no financial losses. In very simple terms, all funds borrowed from Commodity Credit Corporation, the lending agency of the Federal Government, to pay growers for tobacco consigned to Stabilization at the auction market must be repaid in full, plus interest.

As previously stated, prior to 1982, all funds borrowed from CCC to pay growers for tobacco consigned to Stabilization were made available on a nonrecourse basis; that is, if any crop pool was sold for less than the original amount borrowed, plus interest, the difference was absorbed by CCC. The authority for CCC to charge off such losses was authorized by the Agricultural Act of 1938, as amended. Charge-offs were not unexpected—or to put it another way, farm programs were not designed to make profits for the Government. They were designed to assure growers the chance for a fair monetary return for their commodity through an orderly marketing system. Expenditures were expected by the Congress in order to carry out farm programs, including tobacco.

Expenditures in connection with the price support program for tobacco were in the form of charge-offs as opposed to direct payments to producers of other commodities. Of course, Congress expected program costs or charge-offs to be kept at minimum levels.

Charge-offs on the Flue-cured tobacco price support operations have been extremely low when compared to charge-offs or expenditures for other commodities. Charge-offs on those crop polls closed from 1946 through 1976 amounted to $196 million, including principal and interest. Nearly 50 percent of the charge-offs were a result of the 1955 and 1956 discount variety crops. At the same time, there were crop pools closed during the same period where all obligations to CCC were repaid plus profits of $67 million.

Over 4 billion pounds of growers' tobacco has been received, processed, stored, and sold from crop pools, 1946 through 1975. Total funds borrowed to pay growers for this tobacco, plus all handling costs, amounted to $2.4 billion. These figures have been cited to show that Flue-cured price support program charge-offs on all pools closed to date have been less than 0.5 percent of the total value of crops produced in the years 1946 through 1975.

Even though there will be larger charge-offs on crop pools from 1976 through 1981, the overall cost or charge-offs for price support operations is significantly well below those expenditures for other commodity programs. However, the good record for tobacco price support operations did not carry any weight in the fall of 1981 when Congress adopted a resolution requiring tobacco growers to pay all costs of their program beginning with the 1982 crop, except administrative costs, if there was to be any program at all.

Beginning with the 1982 crop as provided by the no net cost law, grower assessments were established: 3 cents for 1982, 7 cents for 1983, and 7 cents for 1984. The assessment was paid by growers on every pound of tobacco sold at auction as well as nonauction. For the past 3 crop years, a total of $172 million has been paid in assessments.

During the 3-year period, Stabilization purchased from growers over 600 million pounds of tobacco which failed to sell for at least one bid above the grade loan rate at the auction market. To purchase and handle this volume, which averaged over 20 percent of gross sales for the past three crops, Stabilization borrowed $1.2 billion. Under the law, CCC will not absorb losses through charge-offs; therefore, any loss or charge-off must be paid from the assessments collected from growers. The amount of the assessment depends on how much tobacco growers sell or consign to Stabilization each year. The greater the volume of tobacco which Stabilization must purchase, coupled with the length of time tobacco remains in storage, and the interest charges that must be added, determines the amount of the assessment each year.

So, after three crops under the no net cost law, Stabilization is faced with a principal and interest debt of $1.1 billion as of May 31, 1985. As tobacco is sold from the no net cost pools, proceeds are immediately applied against the loan. Sales activity depends upon demand, price, and world supply of tobacco. For the past 3 years, demand has been flat or declining, and at the same time there is an oversupply or surplus of tobacco worldwide.

To further compound the problem of generating sales, the strength of the U.S. dollar has climbed to record levels, which results in overseas buyers being forced to curtail purchases due to exchange rates between the dollar and local currencies.

In addition, the Federal excise tax on each package of cigarettes was increased from 8 to 16 cents. During the same period, wholesale prices of cigarettes increased by 10 percent. Consumption dropped 6 percent. Domestic manufacturers reduced purchases at the auction; as a result, Stabilization's receipts increased.

Even though such negative marketing conditions prevailed, Stabilization's board of directors has developed and made available to all buyers over the past 2 years a number of price reduction programs. The most recent price reduction program effective October 29, 1984, resulted in sales of 80 million pounds; however, there is still 800 million pounds in inventory, of which 536 million pounds, with a current financial obligation of $1.1 billion, are the no net cost inventories for the 1982, 1983, and 1984 crops.

With interest accruing at levels up to $10 million per month which must be added to the base selling price of every grade every month, it is obvious that prices in a short time will exceed levels beyond which any buyer will pay. With these conditions prevailing, the board of directors recommended to the U.S. Secretary of Agriculture and the CCC an assessment of 25 cents per pound for the 1985 crop.

It is quite obvious that growers cannot afford to carry such a financial burden. Furthermore, I am of the opinion that no one involved in no net cost legislation in 1982 envisioned or contemplated such a financial burden and responsibility being placed upon growers. There are the problems which already have been alluded to, such as price support levels, adverse economic conditions, and loss of market share in the domestic and overseas market. These problems are being addressed and changes in the program have been proposed to solve the problems confronting tobacco growers.

H.R. 2600 has been introduced as one avenue to relieve growers of this unconscionable financial burden. This approach is a drastic departure from current proposals to bring about the needed changes in order to maintain a viable program. Growers have historically over the years opposed unreasonable taxation on tobacco products for one simple reason: Taxes increase the price to the consumer.

Consumer resistance to higher prices translates into reduced consumption. Reduced consumption translates into lower grower quotas which translates into less grower income. Tobacco is already this country's most over-taxed commodity. Over $9.4 billion, or 31 percent of what consumers spend for the tobacco products represents taxes paid to Federal, State, and local governments. An industry will surely die from continuing and massive tax increases. There are those groups whose ultimate objective is to destroy the industry either through taxation, legislation, or regulation. I understand there is proposed legislation to further increase the Federal tax from 16 to 32 cents and even higher, with such tax earmarked for specific uses.

The fear and concern of Stabilization regarding H.R. 2600 is the precedent that will be established. Will H.R. 2600 open the door for additional substantial taxes that results in further declines in consumption and reduced quota for growers? Smaller and smaller tobacco quotas can be just as devastating as higher and higher grower assessments.

Stabilization's position on H.R. 2600 has been stated in a letter to Congressman Charles Rose, chairman of the Tobacco and Peanuts Subcommittee, House Committee on Agriculture, dated April 22, 1985. I quote from the letter:

> Historically, growers have been opposed to taxation of tobacco products. If all other options and alternatives fail to reduce the inventories and fail to salvage a workable program, the general consensus of members was to reluctantly support the tax bill as an absolute last resort.

Thank you, sir.

Mr. Rose. Thank you, Mr. Bond.

Mr. Myers.

STATEMENT OF WILLIAM O.L. MYERS, MANAGER, BURLEY STABILIZATION CORP.

Mr. **Myers.** Chairman Rose, Chairman Rangel, and distinguished members of these two committees.

Mr. Chairman, by way of introduction, my name is Bill Myers. I am manager of Burley Stabilization Corp., Knoxville, TN. We administer the price support program on burley tobacco for 140,000 producers in Tennessee, North Carolina, and Virginia. Our board of directors authorized me to state the position of Burley Stabilization Corp., with regard to the proposed cigarette excise tax which is being considered in this joint public hearing.

Our position was stated in a letter issued May 23, 1985, to all area Congressmen with constituents who grow burley tobacco. If I may, Mr. Chairman, I would like to read this short letter into the record and then speak briefly to the proposed special excise tax plan as contained in the House bill, H.R. 2600, the Tobacco Equalization Act of 1985:

> The committee appointed by our board of directors to act in matters relating to negotiations, which have been going on for some time in an effort to stabilize the tobacco program, has authorized me to state the position of Burley Stabilization Corporation with regard to the impending tobacco tax issue.
>
> We do not favor considering any form of tax as a viable means of solving the complex problems in the tobacco industry so long as serious negotiations are continuing in good faith on the part of all parties involved. We feel that all segments of the industry must continue to strive for a position of unity and that every divisive issue, which would create further polarization, should be avoided insofar as possible. It appears to us that negotiations which have begun, if they had any merit from the beginning, should be permitted to continue and that the announcement of a proposed added tax sandwiched between two potentially productive meetings is, at best, very untimely.
>
> Our present position does not preclude further consideration of some form of tax, should that be the only alternative to losing the program from our producers.

In the event our current position should change, which is an ever-present possibility as stipulated in the last paragraph of the above letter, we feel that certain critical issues must be addressed if the tobacco program is to survive.

These issues are germane to any action taken and were integral parts of the buy out proposal contained in the Senate bill introduced on July 10, 1985. First and foremost, the price support level must be brought in line with world prices if U.S. burley producers are to be competitive. It is imperative that we discourage any further expansion of off-shore purchases by domestic users and that our present export levels be maintained and increased by regaining lost markets.

In order to accomplish these goals, we must reduce the guaranteed support price from the present escalated level. Another serious matter, of equal importance, is the problem of high inventories held by the two burley associations. Acceptable markets must be found for burley stocks, currently valued at $1.3 billion, without displacing 1985 and future seasonal market purchases, if producer quota reductions are to be avoided.

Assuming that a cigarette excise tax, to finance the tobacco price support program, should make its way through Congress and ultimately become law, there appears to be rising evidence that tobacco would become the target for other organizations with similar goals and thus a Pandora's box could conceivably be opened to less worthy causes than the one which we so nobly espouse, that of salvaging a crucial program for an anxious and worried group of tobacco producers.

Mr. Chairman, we would like to know if anyone has determined the amount of excise tax rate, beyond the anticipated 2 cents, which would be needed to retire the massive loan obligations, and how long, even with the escalation provision in H.R. 2600, would it take to arrive at the minimum required base?

Our organization, like the others involved, is deeply concerned with rebuilding a healthy and harmonious tobacco industry. Our primary objective is, naturally, that course of action which will benefit the grower members whom we represent. We believe, as you do, that unity and cooperation are essential elements for these troubled times and that polarization is not a luxury that we can afford if our producers, and your constituents, are to be guided out of a potentially disastrous situation.

In conclusion, Mr. Chairman, the directors and officers of Burley Stabilization Corp. are committed to, and will ultimately support, the plan that offers the most benefit to our grower members and has the best potential of being approved by Congress in the form of official legislation.

Thank you for this opportunity to appear before these distinguished subcommittees.

Mr. Rose. Thank you both, you and Mr. Bond.

I do not expect you to come here and embrace a plan that is opposed so strongly by the companies, because you deal with the companies. You have to sell them tobacco, and I understand the process there very clearly, but let me ask you both this question: We agree that there are other things, other than disposing of surplus tobacco, that have got to be addressed. We all agree with that. I do not like the way the Senate has approached some of those things. I think they have gone overboard in a couple of aspects.

We are here basically to talk about how do we get rid of this albatross. If the Congress does not give the Senate $1 billion to discount this tobacco, and hand it over to the companies, which is what they would be doing, if the Senate and the House say "No, you can't have $1 billion" how will you feel about temporarily using some—I do not know how much it would be—some of the excise tax on cigarettes to pay off the loans that you both now are obligated to pay to the Commodity Credit Corporation.

Mr. Myers.

Mr. Myers. Mr. Chairman, I think I got this clear.

Mr. Rose. Do not read it. Just tell me.

Mr. Myers. I am not going to. I want to clarify something for myself. I think this is not an added tax, if that is put correctly.

Mr. Rose. We do not know what the House Ways and Means Committee is going to do on cigarette tax. I would like to see it go to zero, but I do not think that is going to happen. If the cigarette tax is established by the Ways and Means Committee at whatever level, and the Senate refuses to give $1 billion to bail out the program and hand the tobacco over to the companies, how would you feel about some of the cigarette tax being used to pay off Commodity Credit loans?

Mr. **Myers**. Some of the 16 or some of the 8?

Mr. **Rose**. Does that make a difference?

Mr. **Myers**. This statement right here, Mr. Chairman, the new cigarette excise tax——

Mr. **Rose**. If I had a chain saw to your neck, you would not answer it in any other way. [Laughter.]

Mr. **Myers**. This is a news release. The new cigarette excise tax would not affect the regular excise tax, which is scheduled to revert from the present rate of 16 cents a pack to 8 cents a pack on October 1. I am not clear on that.

Mr. **Rose**. I am telling you right now what I want you to hear. That may mislead you. Put that out of your mind. Just open your ears and your heart and listen to me. Forget everything you ever learned. These people on the Ways and Means Committee are going to decide what the cigarette tax is going to be. You and I are not going to have a whole lot to say about that. Do you understand?

Mr. **Myers**. Yes, sir.

Mr. **Rose**. We are not on the Ways and Means Committee. They are going to decide what the cigarette tax is going to be. If they decide a cigarette tax at 16, 10, or 18 cents, or whatever they decide, would you object to using some of that money to pay off what you owe Commodity Credit?

Mr. **Myers**. Mr. Chairman, we think much of that can be accomplished. You made me promise in your letter not to address that.

Mr. **Rose**. I said if the other bill will not work.

Mr. **Myers**. Then, of course, I think I stated that in my statement. We will support whatever will salvage the program for producers.

Mr. **Rose**. Amen. God bless you. [Laughter.]

Mr. Bond, you feel the same way?

Mr. **Bond**. Yes; we will take the funds anywhere we can get them. We certainly will.

Mr. **Rose**. Thank you.

Mr. Whitley.

Mr. **Whitley**. Thank you, Mr. Chairman.

Mr. Bond, your statement says that historically growers have been opposed to taxation of tobacco products. Do you and your board feel there are other viable alternatives out there?

Mr. **Bond**. There is one option that we are pursuing still at this moment, is the buy out; that is very familiar to members of this committee. That is not dead at this point. That option has not been—we have not reached the bottom line of this option at this point.

Mr. **Whitley**. You think that is still a viable option?

Mr. **Bond**. Well, there are days when I think it is viable, and days when I think it is not. [Laughter.]

Mr. **Whitley**. How do you feel today?

Mr. **Bond**. Today, I do not feel it is as viable as it was yesterday.

Mr. **Whitley**. How about you, Mr. Myers? You said you do not consider any formal taxes a viable means of solving the complex problems in the tobacco industry as long as serious negotiations are continuing in good faith on the part of all parties involved.

Do you feel at the present time serious negotiations are continuing in good faith on the part of all parties involved?

Mr. **Myers**. Congressman Whitley, I related that statement to the timely introduction of that tax bill before saying that. They were continuing at that time. We had what we considered to be a productive meeting with the companies, and they had scheduled another one, and the announcement of this bill was sandwiched between those, and as of today, I would have to share a medium between optimism and pessimism that Mr. Bond has shared.

Mr. **Whitley**. Do you really feel that serious negotiations are continuing in good faith on the part of all parties involved today?

Mr. **Myers**. We wish they were better.

Mr. **Whitley**. We all wish that, but what do you think?

Mr. **Myers**. It is difficult to say. I cannot put intent and motive in the mind of someone else. They are still talking. We felt as long as they are talking and trying to negotiate——

Mr. **Whitley**. We are still talking with the Koreans on the 38th parallel. [Laughter.] Since 1957.

Mr. **Myers**. We in Burley, we think we are in a better position than Mr. Bond. We do not have the problem of going to market on the 24th of July; we have some time, and we can talk a little longer about legislation than he would, and we would like to talk until there is no further opportunity to talk as far as Burley is concerned.

Mr. **Whitley**. We are really talking legislation this morning. We are not talking about administrative action.

Mr. **Myers**. I covered that in my statement. We will support whatever is in the best interest of our members, and if it becomes law.

Mr. **Whitley**. I commend you on being an optimist.

Mr. **Myers**. I do not want to go on record being an optimist on the plan that we have been talking about. We are hopeful.

Mr. **Whitley**. Hope springs eternal.

Mr. **Rose**. We have 35 minutes for the morning session, and we have got about 9 people to go; but Mr. Thomas, briefly.

Mr. **Thomas** of Georgia. Mr. Chairman, you and I were together in January in North Carolina. Mr. Whitley has summed it up pretty well here with his analogy of the 38th parallel. It was 7 months when we sat down there, and 7 months later with the Georgia tobacco market opening next Wednesday, here we are saying, you might to some degree, you all might be halfway optimistic that talk is going on in good faith.

I just want to say to you that that 7-month lapse of time there, when nothing is brought over or delivered affects the legislation. I hope everybody hears that loud and clear.

Fred, I have great respect for you, and admiration for you in tobacco, and right up there that day, we looked at where tobacco was, with 1 billion pounds in storage, Flue-cured, with the production in this country being cut in half since 1965, we have 300 million pounds of tobacco being brought in, with the program belly up, and how we could think anything but drastic change is needed at this time, is beyond me. And I think there are some of us who feel that the time for drastic change has arrived, and this has been done; and I know we have our differences, and my involvement has been for hopeful agreement here for all factors involved; and continuation for the tobacco industry in this part of the country, because we cannot afford the loss of this one last crop that we are producing.

Mr. **Bond.** Let me correct the statement. Drastic departure. I am with you on the other. Drastic departure as to how you can accomplish what you are talking about. I am with you on that.

Mr. **Rose.** Thank you very much.

At this time we will hear from Mr. Jim Oliver, the master of the North Carolina State Grange. He is also testifying for the National Grange.

Mr. Oliver.

STATEMENT OF JAMES R. OLIVER, MASTER, NORTH CAROLINA STATE GRANGE, AND LEGISLATIVE REPRESENTATIVE, TOBACCO ISSUES, NATIONAL GRANGE

Mr. **Oliver.** Chairman Rangel, Chairman Rose and members of the subcommittee, I am Jim Oliver, a farmer, master of the North Carolina State Grange, officer of the National Grange, member of the Ag-Committee of the National Grange and the National Grange legislative representative on tobacco issues. Today, my statement will be for the National Grange, which is composed of some 41 State Granges, representing both burley and Flue-cured growers.

The National Grange supports H.R. 2600, introduced recently by Mr. Rose and others.

Tobacco has been under constant attack from one source or another since it was first discovered here in America by our early settlers. As a result, these attacks combined with efforts to improve the program have resulted in many changes taking place in the tobacco program since its inception in the early 1930's. One of the latest changes, the implementation of the no net cost program in 1982, has had a very devastating effect on the tobacco farmer.

As you are aware, this program requires the tobacco program to operate at a no net cost to the Government with the tobacco farmer paying, through assessments, the cost of the program. Since the implementation of the no net cost program and the freezing of the price support in 1983, we have seen a drastic increase in imported cigarette tobacco entering the United States.

According to the March 1985 issue of Tobacco Outlook and Situation Report, imports for consumption of cigarette tobacco has risen 159 percent between 1982 and 1984. General imports have risen 147 percent during this time frame. These large amounts of imported tobacco, together with a loss of some of our foreign markets as a result of the dollar's high value, has caused the amount of tobacco in Stabilization stocks to rise drastically.

As a result of this, the assessments collected from Flue-cured growers to finance the No Net Cost Tobacco Program have increased from 3 cents in 1982 to 7 cents in 1983; 7 cents in 1984 and 25 cents in 1985. Burley assessments increased from 1 cent to 30 cents during the same time frame. It is quite evident that the no net cost program has become a no net profit program for the Flue-cured and burley tobacco producers.

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Based on the 1985 effective quota of 764 million pounds for Flue-cured, the assessment at 25 cents a pound paid by the Flue-cured farmer would amount to $191 million. Based on the burley effective quota of 537 million pounds at 30 cents a pound for burley tobacco, the assessment collected from the burley growers would amount to $161.1 million. Total assessment to be collected from both burley and Flue-cured growers for 1985 would amount to $352.1 million. With the implementation of the provisions of H.R. 2600, this tremendous financial burden now on the backs of our Flue-cured and burley producers would be lifted.

Mr. Chairman, I must point out to you that the factors that have caused the increase in Stabilization stocks and as an end result increased the assessments to an unbearable level have been caused by factors over which the farmer had absolutely no control.

At this time, Mr. Chairman, I would like to read to you the policy of the National Grange as it relates to the excise tax on cigarettes:

> The National Grange is opposed to making the present excise tax of 16 cents per pack on cigarettes permanent, but we will support an increase in the excise tax on cigarettes of up to 2 cents per pack to establish the tobacco equalization fund that will be used to finance the no net cost tobacco program.

All of us are aware that the cigarette excise tax is supposed to revert to 8 cents per pack on October 1, 1985, under the provisions of legislation enacted in 1982. Being realistic, I do not think too many of us agree that this tax will ever revert to 8 cents.

What we are simply asking for is that 2 of that 8 cents that is supposed to revert be designated to establish and maintain the tobacco equalization fund that will finance the No Net Cost Tobacco Program. I am quite sure, Mr. Chairman, that you will hear from the domestic manufacturing companies that excise taxes have always had an adverse effect upon consumption.

Again, quoting from the March issue of Tobacco Outlook and Situation Report, total U.S. consumption declined from 1982 to 1984 approximately 5.3 percent. According to this report, total U.S. consumption includes those removals that are both tax exempt and taxable.

I contend that a more realistic figure can be derived looking at the decline of taxable cigarettes. Using table 1 of this report, from 1982 to 1984, taxable cigarettes only declined 2.7 percent. In my opinion, this is a truer indication of what has actually happened since the excise tax was increased from 8 to 16 cents on January 1, 1983.

Our friends, the domestic manufacturers of cigarettes, lead us to believe that the decline in consumption, whether it be the 5.3 percent or the 2.7 percent is caused by the excise tax. Again, I quote from the March issue of Tobacco Outlook and Situation Report, table 4, to dispell this theory. Using filter tips as an example, the net price per thousand of cigarettes has increased from February 1982 through June 1985 by 46.9, or 47 percent. Using filter tips again, the net price per thousand excluding the Federal excise tax from the same period, has increased 40.4 or 40 percent. The difference between net price and price excluding excise tax has been 7 percent.

It is quite evident, that of the 47-percent increase in the wholesale price of cigarettes between February 1982 and June 1985, only 7 percent can be attributed to the excise tax and 40 percent of the increase has been increased income to the manufacturer. To put it simply, giving the excise tax increase a factor of 1, the manufacturer income increase would be 5.7.

During this same period, inflation has remained rather constant, at approximately 5 percent per year. Cigarette prices have increased at the rate of 11.4 percent, excluding excise taxes, during this same period—almost double the rate of inflation.

I say to you, Mr. Chairman and members of this committee, that the increase in the price of cigarettes due to increasing the enormous profits of the manufacturers has had far more effect in the decline of consumption than the mere increase in the excise tax; to be exact, this has been multiplied by 5.7.

It is interesting that the net return on investment in the tobacco industry is the second highest industry in the United States. According to a report from Fortune Magazine last March, it showed the tobacco industry with a return of 20.3 percent on their investment was second only to the beverage industry in America.

When the law was passed in August 1982 to increase the excise tax by 8 cents to 16 cents effective January 1, our manufacturers began to increase their prices immediately, resulting in a period of 4 months of a $4 increase per thousand. Their reasons for this was to "soften the blow" of the increase in the excise tax effective January 1, 1983.

At this time we are less than 3 months away from a supposed decrease in the excise tax of 8 cents. I have seen no indication on the part of our manufacturers that they have begun to reduce the price per thousand at the wholesale level on cigarettes in order to "soften the blow" of this reduction in the excise tax that is supposed to occur on October 1, 1985. On the contrary, a price increase was put into effect on the very date of the hearing before the Ways and Means Committee on the excise tax here in Washington.

Again, Mr. Chairman, we strongly support H.R. 2600 and feel that the impact of this 2 cents tax will have very little effect on consumption of cigarettes in the United States and it will, as I have stated before, relieve our Flue-cured and burley producers of a tremendous financial burden.

Mr. Chairman, I would like to add that the excise tax alone to fund the tobacco program will not solve all of the problems that we face today with our tobacco program. The implementation of the tobacco equalization fund will enable us time to make further adjustments to the program.

As an example, we need to decrease our price support to a level more in keeping with the market demands and our position is approximately $1.50 per pound. We also must develop a new price support formula that will prevent a rapid escalation in the price support, which is one of the factors that has caused our price support to reach an unbearable level.

Our recommendation on a new price support formula would be equal weight given to market demands and equal weight given to cost of production to the tobacco farmer. We will be happy to discuss these provisions and others on recommended changes to Congressman Rose at the appropriate time.

In conclusion, Mr. Chairman, the National Grange strongly supports H.R. 2600. In my opinion, this bill with the other changes I have recommended, will not only save our tobacco program from total destruction but also, more importantly, save the thousands of Flue-cured and burley tobacco farmers from economic chaos. It will allow them to continue to be tax-paying citizens of this Nation instead of welfare recipients. The total economic base of the Southeastern United States is at stake. We urge you to look favorably on this bill.

Thank you for this opportunity to appear before you today to express our views, and I will be happy to attempt to answer any questions you may have at this time.

Mr. ROSE. Jim Oliver, I have always consdered you a friend and enjoyed working with you, but I think we all see from your statement here today, you are also a very highly competent farm policy leader, and we appreciate very much that excellent statement.

Any comments, members of the panel?

Gentlemen, thank you all very much.

I would ask my friend Chuck Frazier, and you probably need to get over to the other markup. Would you like to come and briefly present your position?

I am going to Mr. Chuck Frazier, the National Farmers Organization.

Chuck, we appreciate very much your being here. We have your statement. If you will summarize it, we will put the whole statement in the record, and just give us your high points.

STATEMENT OF CHARLES L. FRAZIER, NATIONAL FARMERS ORGANIZATION

Mr. FRAZIER. Chairman Rose, Chairman Rangel, it is a pleasure to appear before you this morning, and on behalf of our members, who produce both Flue-cured and burley; we are impressed with your efforts, and we support the principles set forth in H.R. 2600.

I will touch on just a couple of points very briefly. We believe that the action you take to save this tobacco program was, of course, to be in keeping with what you may do in some other overriding problems in facing this Congress. I refer, of course, to the condition of the farm economy, the national budget deficit, the national trade deficit, and the obvious problems confronting us on what to do with the budget for the agricultural programs in this country.

I might say, in keeping with that set of viewpoints, our attitude very closely follows, as it happens, that set forth by Senator Gore a little bit earlier. We do not pretend to have any crystal ball, or predict what Chairman Rangel and his committee may do in taxes; but we believe its almost inevitable that the 8-cent excise tax, due to expire in October, will probably have to be reconsidered.

In that event, what we are simply saying is that we believe you are on the right track to either use part of that reinstated tax or possibly some additional tax as you may see fit to impose to finance the continuation of both Flue-cured and burley programs.

I might add quickly, for your information, and some members whom I do not work with regularly, my organization is one of farmers and ranchers. We are not engaged in the business world in any manner. I have some members in the Flue-cured area, some in Kentucky, Tennessee, of course, produce burley. The president of our State organization in Missouri is a large burley grower, out in the St. Joe area.

So we have a legitimate interest as producers, and that represents entirely our viewpoint with respect to this bill, and we are happy to be here in support of it.

[The prepared statement of Mr. Frazier appears at the conclusion of the hearing.]

Mr. **Rose**. Thank you for your statement, and position, and we thank you.

If there are no questions, we appreciate your going out of turn.

The Farm Bureau presidents, if you will please come forward. We are honored to have with us today Mr. Jim Putnam of the Tennessee Farm Bureau Federation, Mr. Bob Nash of the Georgia Farm Bureau Federation, Mr. Harry Bell of the South Carolina Farm Bureau Federation, and Mr. Bob Jenkins, of the North Carolina Farm Bureau Federation.

Gentlemen, you can all see that you are well-represented on this panel by Members of Congress from your States and from your jurisdictions. We want to try to wrap up here at noon if we can, so I note that Mr. Putnam's statement is rather brief. I do not think you need to do much summarization.

So we will look to you first.

STATEMENT OF JIM PUTNAM, PRESIDENT, TENNESSEE FARM BUREAU FEDERATION

Mr. **Putnam**. Thank you, Chairman Rose, Chairman Rangel, and the distinguished subcommittees. I am Jim Putnam. I am a farmer. I appreciate our opportunity to express our views concerning this most important subject to our State. It was our No. 1 crop last year. My remarks concerning this issue are on behalf of the Tennessee Farm Bureau Federation on behalf of the federation farmers in Tennessee. There are serious and difficult problems in the tobacco industry, and especially for the tobacco farmers. It is clear to the tobacco farmers in Tennessee that we have made some mistakes that were not in the best long-term interest of tobacco producers. There is no doubt that the guaranteed high support, coupled with foreign tobacco at lower prices have been contributing factors in creating our present situation. The combination of domestic production; this, coupled with the no net cost aspect, is a self-destructive course for the tobacco program.

Our tobacco producers have always appreciated the program, and been willing, production to demand, in order to maintain it, and for the most part, it has worked on tobacco supplies. It is a fact that the producers realize that their program is in jeopardy; and unless something is done to give them some relief on the burdensome cost on the no net phase of the program, it probably will not continue. We support efforts that would help us to obtain the desired results for our farmers who have been willing to accept reductions in quotas in an effort to save the program.

Should these efforts fail, we support H.R. 2600 as a means of financing the no net cost of the program. May I hasten to say that we are not advocating any tax in excess of the 16 cents which now exists. We understand that 8 cents of the present 16 cents will sunset in October, unless Congress retains it for other purposes.

However, we have been led to believe that it will not be allowed to expire, and based on past experience, seldom does it happen. Therefore, we are opposed to any tax increase other than as provided in H.R. 2600, to finance the program.

It is under these conditions that we support H.R. 2600 as a means to provide our tobacco farmers relief under difficult and unfair burden that has been placed upon them.

I thank you for the privilege of making this statement, and I will respond to any questions that you might have.

Mr. Rose. Bob Nash, president of the Georgia Farm Bureau Federation.

STATEMENT OF ROBERT NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION

Mr. Nash. Mr. Chairman, subcommittee members and guests, I am Bob Nash, president of the Georgia Farm Bureau Federation.

I want to thank the members of the Tobacco and Peanuts Subcommittee and the members of the Select Revenues Measures Subcommittee for holding this hearing and giving us the opportunity to present testimony.

Tobacco producers of Georgia have been supportive of various programs in order to maintain the longstanding tobacco program. They accepted their responsibility of the No Net Cost Program. However, the ever-increasing cost of this program, which is uncontrollable by producers, make it impossible to continue to pay for this system.

We continue to support Farm Bureau policy of reduction of imports and disposal of the excess stocks held by Stabilization as essential to the future of maintaining a tobacco program. The failure of the buying companies and manufacturers to cooperate in the purchase of excess stocks and a major portion of the 1985 crop leaves the producers no alternative except to support H.R. 2600.

We opposed the enactment of an additional 8-cent excise tax on cigarettes and look forward to the sunsetting in 1985.

Since the situation at the present time has not changed and the producers can no longer afford to pay the high cost of interest and storage, we feel that the cost of the No Net Cost Tobacco Program should be borne by the entire tobacco family. With this in mind, H.R. 2600 appears to be the best proposal for our farmers. This would allow all members of the tobacco family to participate in the No Net Cost Tobacco Program. This would bring producers, manufacturers and users together in order to make the No Net Cost Tobacco Program a success. This would also discourage the purchasing of imported tobacco since the tax would increase as more tobacco is placed in Stabilization.

With the failure of support from all segments of the tobacco industry to utilize the domestic production, we support an equalization of the no net cost program through a 2 cent excise tax on cigarettes.

Again, I want to thank you for allowing us to testify before the subcommittees.

Mr. ROSE. Thank you very much, Mr. Nash.

Mr. Bell.

STATEMENT OF HARRY S. BELL, PRESIDENT, SOUTH CAROLINA FARM BUREAU FEDERATION

Mr. BELL. Mr. Chairman, Chairman Rangel, I am Harry S. Bell, president of South Carolina Farm Bureau Federation; and I greatly appreciate this opportunity to present the thinking of South Carolina Farm Bureau tobacco grower members as regards H.R. 2600. Tobacco is vital to the agricultural economy of South Carolina, and our organization is greatly concerned with the myriad of problems facing the tobacco industry.

The South Carolina Farm Bureau Tobacco Committee—long recognized as the leading spokesman for tobacco growers in our State—has spent many hours in study and deliberation seeking answers to these problems, and appraising various proposals for a tobacco program.

Our reaction to H.R. 2600 or any other proposed legislation has to be based on policy as adopted by Farm Bureau voting delegates; and the following policy statements bear directly on the matter:

One. "We oppose any additional taxes on any farm commodities." Policy No. 19, page 49, SCFB Policies & Recommendations 1985.

Two. "We oppose the additional 8-cent tobacco tax and further urge that this temporary tax be removed at the end of the 3-year period or before as promised." Policy No. 34, page 92, SCFB Policies & Recommendations—1985.

We have looked at H.R. 2600 very carefully; and frankly, we are skeptical of this proposal for a number of reasons. We have seen the effect that doubling of the Federal excise tax on cigarettes has had since 1983. During this 2-year period, U.S. tobacco farmers have witnessed a loss in sales of 85-million pounds, farm sales weight, with a market value of more than $150 million.

We believe that the use of cigarette taxes, whether Federal or State or a State manufacturers tax, could open the door to uncontrolled increases in taxes that could be counterproductive to tobacco farmers.

It is very likely that once the door is opened and a cigarette tax is earmarked for a specific purpose, every special interest group in the country will want a piece of the action. After the door is opened and a specially marked cigarette tax wedge is in place, it will be next to impossible to ever close the door again to other earmarked cigarette taxes.

Based on the experience of grower losses resulting from the doubling of the Federal excise tax from 8 to 16 cents, we believe that any move that would open the door to special earmarked cigarette taxes could in the long run negate any immediate benefits farmers may receive to defray their current unmanageable cost of the program. It is very likely that special interest demand for higher and higher cigarette taxes will result in a smaller and smaller market demand for the farmers' leaf production, which could eventually destroy the farmer that the tax was supposed to help.

Further, the imposition of a tax on manufacturers of a product made from an agricultural crop in order to cover losses incurred in supporting the price of that crop is an unprecedented proposal. If this is a desirable means of avoiding losses in the Tobacco Program, should it not be applied across the board to other crops which are in surplus? We are afraid that the approach of H.R. 2600 presents an unwise fiscal policy and a dangerous precedent.

H.R. 2600 confers on the Secretary of the Treasury broad authority to set the added cigarette tax annually by administrative fiat. In the event the tax yeilds more revenue than needed to cover losses in the price support program in any year, the surplus will revert to the general fund. Therefore, by setting the tax too high, the Secretary of the Treasury has at his disposal a gimmick for raising extra revenue. Congress should not abdicate its responsibility for levying taxes to the executive branch.

Personally, I see no logic in making smokers, who would ultimately pay the added tax, bear the cost of the Tobacco Price Support Program. The cost of all other farm price support programs is borne by all who pay Federal taxes, not by a single group subjected to a discriminatory and regressive tax.

In conclusion, we believe that rather than resorting to more tax on cigarettes, a much better solution to the tobacco farmer's dilemma and his long range future would be a negotiated agreement between the tobacco farmer and buyer sectors to share responsibilities in developing a viable tobacco program. In fact, we believe that it would be unwise to adopt this bill, H.R. 2600, when a promising alternative appears to be at hand through negotiations between manufacturers and growers.

Mr. Chairman, again thank you for this opportunity of expressing our views; and to members of these subcommittees, thank you for your kind attention.

Mr. ROSE. Thank you very much, Mr. Bell.

Mr. Jenkins, president of the North Carolina Bureau.

STATEMENT OF WILLIAM B. JENKINS, PRESIDENT, NORTH CAROLINA FARM BUREAU FEDERATION

Mr. JENKINS. Mr. Chairman and members of the subcommittees, I am William B. Jenkins, president of the North Carolina Farm Bureau Federation.

On behalf of the members of our organization who have a vested interest in the production, marketing and use of tobacco, I express appreciation for the opportunity to testify in support of H.R. 2600, the Tobacco Equalization Act of 1985.

For many years, the North Carolina Farm Bureau Federation had policy positions which stated, "We support and urge a decrease in tobacco excise taxes." Our membership has viewed the Federal cigarette excise tax as a discriminatory tax which should never have been imposed.

However, at the annual meeting of our delegate body in December 1984, the following policy was adopted:

"We shall explore the possibility of taxing or assessing the finished tobacco products to generate revenue to support the tobacco program."

The adoption of that policy position is the result of tobacco growers having to operate under the No Net Cost Tobacco Act of 1982.

The assessments which have been imposed on growers by that act have increased from 3 cents per pound in 1982 to 25 cents for the 1985 Flue-cured crop and from 1 cent in 1982 to 30 cents per pound in the 1985 burley crop. For Flue-cured tobacco farmers, the assessment rate change will increase their costs to the no net cost fund from an average of $63 in 1982 to $526 in 1985 on a per-acre basis. For the burley farmer, the increase is from $21 to $640 per acre during the same time frame.

Such assessment increases have been imposed as a result of the dramatic increase in the quantity of tobacco placed under loan during the past three marketing seasons. To document that point, according to USDA data, table 22, Tobacco Outlook and Situation Report, March 1985, during the 3 years prior to the No Net Cost Act, a total of 315 million pounds of Flue-cured and 8.1 million pounds of burley were placed under loan. For the 3 years under the act, a total of 614 million pounds of Flue-cured and 725 million pounds of burley were placed under loan.

A logical question is, what caused such a dramatic change in so short a period of time? You will probably be told today that there are many issues which converged in 1982 that contributed to the condition and that is true. The important thing is that we sort through these issues to determine what has had the most impact from what has had the least impact.

Among those issues are:

The decline in consumption of cigarettes in this country which has been caused by a number of factors.

Restrictions on where tobacco products can be consumed are surely having some effect.

Antismoking campaigns by organizations and agencies are surely having some effect. We are not able to measure the specific impact in these two areas.

Increased available supplies of burley and Flue-cured tobacco, especially in countries where either Government or company assistance—subsidies—is provided, have penetrated not only the foreign markets to which we have traditionally exported, but have also found their way into the U.S. market. I will speak to this issue in more detail later.

Increased taxation at the Federal, State, and local levels has had an impact. However, there are indications that these may not have been as influential on the downturn in consumption as we once believed. This also will be addressed later.

The level of the price support of U.S.-grown tobacco is high in relationship to the prices in other areas of the world. Farm Bureau concedes that we need to make U.S. tobacco more competitive in world markets, but, we do not agree that the level of the U.S. price support is the total culprit.

The value of the U.S. dollar in relationship to other currencies, which by the way is cited by some economists as being overvalued by 25 to 30 percent, has had an impact on our export shipments. The overvalued dollar has also increased the attractiveness of foreign grown tobacco which is entering the United States in record volume.

The crippling burden of the assessments imposed on tobacco growers to finance the No Net Cost Program, and those assessments are crippling the farm economy in tobacco land.

Let me speak to the issue of taxation and its impact on consumption. It is alleged that the doubling of the Federal cigarette excise tax caused the 5 percent decline in cigarette consumption in 1983.

We have carefully examined table 1, "Cigarettes: U.S. Output, Removals, and Consumption, 1976–84" of the March 1985 Tobacco Outlook and Situation Report and table 4, "Wholesale Cigarette Price Revisions, 1977–84" of that same publication.

We believe that one must focus on the taxable removals of table 1 rather than the total U.S. consumption in order to get a proper perspective of what happened when the Federal excise tax doubled. You will then find that the taxable removals declined by 2.7 percent rather than 5 percent.

When you look at the total period since the tax was enacted, our figures show that of the total price change, 37 percent can be attributed to tax; the 63 percent is due to other price factors. A copy of our findings is attached.

Mr. Chairman, this hearing is focusing on H.R. 2600. I therefore will use the remainder of my time to focus on the tax issue. We are very much aware of the fact that when the cigarette excise tax was increased on January 1, 1983, the legislation provided that the 8 cents which was added would sunset on October 1, 1985. We believed then that the Congress had included that provision in good faith and the tax would, in fact, sunset. However, we believe ourselves to be realists enough to know now that the chances of that becoming a reality are very, very slim.

On that basis, we are therefore supporting the bill to designate a portion of the Federal cigarette excise tax as a method of avoiding economic devastation for tobacco farmers. The bill introduced by Congressman Rose and others provides the flexibility for the amount designated to go down to virtually zero when the problem of excessive loan stocks and the unbearable assessments imposed on tobacco farmers are resolved.

If this bill becomes law, further action can then be taken to make U.S. tobacco more competitive in world markets. The North Carolina Farm Bureau would then support legislative reform of the tobacco program that is fair and equitable to all segments of the industry.

We encourage you to favorably report H.R. 2600 to the Ways and Means Committee.

Thank you for allowing me this time to appear today.

[The attachments follow:]

Attachment 1

TOBACCO PRODUCTS

Cigarette Use Stabilizes In 1984

Despite higher prices, antismoking activities, and restrictions on where people can smoke, U.S. cigarette consumption stabilized in 1984. Americans smoked 600 billion cigarettes last year, about the same as in 1983, but down 5 percent from 1982. However, cigarette prices rose less rapidly than in 1983, the economy improved and some consumers switched to generic cigarettes that are 20 to 25 percent cheaper than standard brands. While domestic use stabilized and exports declined, output rose slightly to 668 billion cigarettes. In 1985, total domestic consumption is expected to decline slightly as some States raise taxes and smoking restrictions increase. Per capita consumption will continue to fall. Last year, per capita use by persons 18 and over fell to 3,454 cigarettes--down from 3,494 in 1983.

The annual Economic Research Service survey of cigarette manufacturers indicated that production of filtertip cigarettes rose to 94.2 percent of total output in 1984, up from 93.6 percent in 1983. The gain was concentrated in the 100-millimeter size, which made up about 36 percent of 1984 output (table 3).

Cigarette Prices Rising

Manufacturers raised wholesale cigarette prices two times last year for a total increase of 7 percent (table 4). Retail prices also rose 7 percent, and are expected to rise further this year.

Five States raised cigarette taxes in 1984 an average of 2 cents a pack. State cigarette tax rates (weighted by number of packs taxed) averaged 15.4 cents per pack in December 1984, 0.1 cent above a year earlier. Maine has announced an excise tax increase to 28 cents a pack effective October 1, 1985, and excise tax increases have been proposed in several other States. The Federal excise tax was increased to 16 cents a pack on January 1, 1983, but under current law it is scheduled to return to 8 cents on October 1, 1985. However, a number of bills have been introduced in Congress to extend the 16-cent rate.

Cigar and Smoking Tobacco Use Again Lower

Large cigar use (including cigarillos) continued to decline in the fourth quarter of 1984. Last year, U.S. smokers used about 3.49 billion large cigars, 3 percent fewer than a year earlier (table 6). Production of small cigars--less than 3 pounds per 1,000--declined to 1.26 billion pieces, down 7 percent from

Table 1--Cigarettes: U.S. output, removals, and consumption, 1976-84

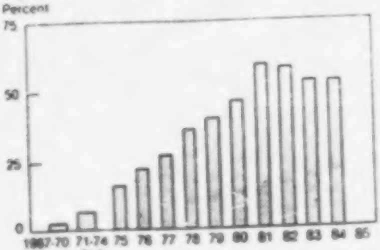
		Removals						
			Tax-exempt					
Year	Output	Taxable	Total	Exports	Shipments 1/	Overseas forces2/	Estimated inventory increase	Total U.S. consumption3/
				Billions				
1976	693.4	617.9	72.1	61.4	1.9	8.8	13.5	613.5
1977	665.9	592.0	78.1	66.8	1.1	10.2	-14.4	617.0
1978	695.9	614.2	85.1	74.4	1.2	9.6	0.2	616.0
1979	704.4	614.0	93.8	79.7	1.1	13.0	5.7	621.5
1980	714.1	620.5	94.2	82.0	.9	11.3	2.3	631.5
1981	736.5	638.1	92.0	82.6	.8	8.6	8.0	640.0
1982	694.2	614.1	82.1	73.6	.8	7.7	-10.8	634.0
1983	667.0	597.5	69.7	60.7	.8	8.2	7.2	600.0
1984 4/	668.2	597.8	67.1	56.5	.8	9.8	8.8	600.4

1/ To Puerto Rico and other U.S. possessions. 2/ Includes ship stores and small tax exempt categories. 3/ Taxable removals, overseas forces, inventory change and imports (negligible). 4/ Estimated.

Compiled from reports of the Bureau of Alcohol, Tobacco, and Firearms and the Bureau of the Census.

Attachment 2

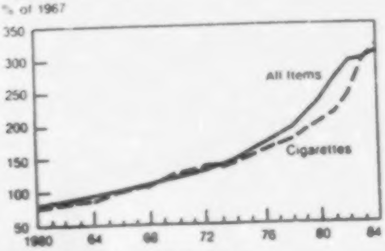
Cigarettes Low-Tar Market Share*



*15 mg. "Tar" or less. Federal Trade Commission Data

Latest year estimated

Consumer Price Index and Cigarette Prices



BLS Data. Beginning 1978 for all urban consumers

Cigarettes, filter tip, king size for 1960-77

Table 4—Wholesale cigarette price revisions, 1977-84 1/

Approximate date of change 3/	Net price per 1000				Net price per 1000 excluding Federal excise tax 2/			
	Standard	King size	Filter tips	100 millimeter	Standard	King size	Filter tips	100 millimeter
	Dollars							
August 1977	14.35	14.35	14.35	14.85	10.35	10.35	10.35	10.85
June 1978	15.20	15.20	15.20	15.70	11.20	11.20	11.20	11.70
December 1978	15.75	15.75	15.75	16.25	11.75	11.75	11.75	12.25
June-July 1979	16.30	16.30	16.30	16.80	12.30	12.30	12.30	12.80
January 1980	17.05	17.05	17.05	17.55	13.05	13.05	13.05	13.55
May 1980	17.65	17.65	17.65	18.15	13.65	13.65	13.65	14.15
November 1980	18.50	18.50	18.50	19.00	14.50	14.50	14.50	15.00
April 1981	19.35	19.35	19.35	19.85	15.35	15.35	15.35	15.85
September 1981	20.20	20.20	20.20	20.70	16.20	16.20	16.20	16.70
February 1982	21.20	21.20	21.20	21.70	17.20	17.20	17.20	17.70
Aug.-Sept. 1982 4/	22.70	23.70	22.70	23.70	18.70	19.70	18.70	19.70
October 1982 4/	24.20	25.20	24.20	25.20	20.20	21.20	20.20	21.20
November 1982 4/	25.20	26.20	25.20	26.20	21.20	22.20	21.20	22.20
January 1983 5/	26.90	27.90	26.90	27.90	18.90	19.90	18.90	19.90
June 1983	28.40	29.40	28.40	29.40	20.40	21.40	20.40	21.40
December 1983	29.15	30.15	29.15	30.15	21.15	22.15	21.15	22.15
June 1984	30.15	31.15	30.15	31.15	22.15	23.15	22.15	23.15
December 1984 6/	31.15	32.40	31.15	32.40	23.15	24.40	23.15	24.40

1/ Includes leading brands. A 3-percent discount is made for payment within 10 days or 2 percent within 14 days. 2/ Effective January 1, 1983, the Federal excise tax doubled to $8.00 per 1,000 cigarettes. 3/ For 1940-74, see TS-151, March 1975; for 1974-76, see TS-177, September 1981. 4/ Manufacturers increased prices by a different amount. The change shown represents a major manufacturer whose prices were between the highest and lowest. 5/ The January price increase brought major manufacturers' prices in line. 6/ Some prices raised by a smaller amount. Generic cigarette prices are 20 to 25 percent lower than prices listed.

BEST COPY AVAILABLE

Attachment 3

REVIEW OF WHOLESALE CIGARETTE PRICE CHANGES

(1000 cigarettes; 100 millimeter size)

		With Tax	Tax Excluded
January	'83	27.90	19.90
February	'82	21.70	17.70
		6.20 - 4.00 = 2.20	2.20
		$\frac{4.00}{6.20}$ = 64.5% chargeable to the excise tax change	
December	'83	30.15	22.15
February	'82	21.70	17.70
		8.45 - 4.00 = 4.45	4.45
		$\frac{4.00}{8.45}$ = 47.3% chargeable to the excise tax change	
December	'84	32.40	24.40
February	'82	21.70	17.70
		10.70 - 4.00 = 6.70	6.70
		$\frac{4.00}{10.70}$ = 37.4% chargeable to the excise tax change	

-- During the period February 1982 - January 1983 (12 months), the wholesale price of 1000 cigarettes increased 28.57 percent, inclusive of the increased federal cigarette excise tax. An examination of the wholesale price change indicates that the tax increase accounted for 64.5 percent of the total increase. Manufacturer margins accounted for 35.5 percent.

-- For the period February 1982 - December 1983 (23 months), the wholesale price of 1000 cigarettes increased 38.94 percent, inclusive of the increased federal cigarette excise tax. The tax increase accounted for 47.3 percent of the total increase while manufacturer margins accounted for 52.7 percent.

-- For the period February 1982 - December 1984 (35 months), the wholesale price of 1000 cigarettes increased 49.31 percent, inclusive of the increased federal cigarette excise tax. The tax increase accounted for 37.4 percent of the total increase while manufacturer margins accounted for 62.6 percent of the price change.

-- The use of wholesale price data to attempt to evaluate the impact of the increase in the federal cigarette excise tax on consumption (disappearance) of cigarettes is less than scientific in nature for analytical purposes. A more creditable source would be the retail price; however, such data is not available for comparative analysis in determining the real impact the excise tax increase had on consumption.

-- Using the most reliable data available, it appears that at the time the tax increase became effective on January 1, 1983, the wholesale price had been increased $6.20 per 1000 cigarettes. The tax increase of $4.00 per 1000 cigarettes thus accounted for 64.5 percent of total increases in the wholesale price and logically could be blamed for only that percentage of the decline in consumption. On that basis, the decline in consumption attributable to the tax increase would be 3.2 percent, not 5 percent as alleged by cigarette manufacturers and others.

-- The alleged 5 percent decline in consumption which has been attributed to the tax increase appears to have been substantially overstated when the "taxable removals" as reported in Table I, Tobacco Outlook and Situation Report, March 1985 (TS-191) are examined. "Taxable removals" for the year 1983 totaled 597.5 billion pieces compared to 614.1 billion pieces for the previous year. Thus, the reduction was in fact 2.70 percent as illustrated ---

$$\frac{597.5}{614.1} = 97.297.$$

-- The above examination could be interpreted that the increase in the federal cigarette excise tax was even less significant than has been alleged and likely caused only 1.74 percent of the taxable removals. The data included in Table I, TS 191 under the heading "Total U.S. Consumption" does in fact indicate a reduction of 5.4 percent; however, it is essential to recognize such data includes taxable removals, overseas forces (tax exempt), inventory change and imports. Thus variations other than in the "taxable removals" distort the total consumption data.

-- It is important to maintain a perspective of not only the alleged role of the federal tax increase, but also the suggestions of the cost of U.S. grown tobacco as a major contributor to the so-called decline in consumption. When the average market prices for flue-cured and burley tobacco for the period 1982 through 1984 are analyzed, it becomes relatively clear that market price changes have had minimal impact when compared to the wholesale prices of 1000 cigarettes. The following tables illustrate that point:

	Flue-Cured	(cents/pounds)		Burley	
Year	Mkt. Avg.	% Change	Year	Mkt. Avg.	% Change
1982	178.5		1982	181.0	
1981	166.4		1981	180.7	
	12.1	7.27		.3	.16
1983	177.9		1983	177.3	
1981	166.4		1981	180.7	
	11.5	6.91		(3.4)	(1.88)
1984	181.0		1984	187.5	
1981	166.4		1981	180.7	
	14.6	8.8		6.8	3.76

Mr. Rose. I want to thank all of you for your comments. I am reading over your statement. You bring out some of the points that Mr. Oliver brought out in his testimony about an increase in the cost of cigarettes; in other words, the wholesale price increases as a factor for refreshing consumption as well as how that fits in with the excise taxes.

Mr. Jenkins. Mr. Chairman, I could say that there are some tobacco Farm Bureau members that will testify later that will cover some areas that I had in my statement.

Mr. Rose. Mr. Jones.

Mr. Jones of North Carolina. Mr. Chairman, you or Mr. Rangel could answer this. I do not believe it has been developed here this morning, that if H.R. 2600 does become law, what is the estimated revenue to be derived from the 2 cents?

Mr. Rose. I will certainly not presume to tell the chairman what his figures are; but from what I have seen, 8 cents of the cigarette tax is approximately $2.4 billion a year. So if you take one-fourth of that, you are talking about roughly $600 million a year for the 2 cents.

I have not been putting out those numbers. Cigarette companies might increase their wholesale prices again, and consumption might go down again.

Mr. Jones of North Carolina. Thank you.

Mr. Rose. Mr. Cooper.

Mr. Cooper. I would like to congratulate all of the witnesses on the testimony, particularly Mr. Putnam and Mr. Myers, two outstanding Tennesseans.

Mr. Rose. I want to recognize three very vital Members of the Congress concerned with the tobacco industry who are here, not members of these subcommittees, Congressman Norman Sisisky from Virginia, Congressman Carl Perkins from Kentucky, and Congressman Jim Cooper from Tennessee. They are all cosponsors of H.R. 2600, and are vitally interested in the outcome of this situation.

Mr. Whitley.

Mr. Whitley. Mr. Chairman, I just have one question for Mr. Bell.

Mr. Bell, your statement says personally you see no logic in making smokers bear the cost of the Tobacco Price Support Program.

If you assume for purposes of discussion that the Federal tax on cigarettes is going to be 16 cents a pack, do you think the average smoker would object to having 2 cents of it earmarked for the benefit of small farmers?

Mr. Bell. I doubt the average smoker would have any idea where it goes.

Mr. Whitley. The smoker is going to pay 16 cents whether it is earmarked or not. If you assume that, do you think the average smoker would object to having it earmarked?

Mr. Bell. I would doubt it.

Mr. Rose. Any further comments or questions?

Mr. Putnam. Our position in Tennessee along this matter is a fact we already have the 16 cent tax already on tobacco, and we really think it is fair under the conditions of the tobacco industry today; and the experience of the tobacco farmer, that if you have already got the tax for somebody else, why not let the tobacco farmer have a little of it today to get himself out of this dilemma that he finds himself in?

Mr. **Rose**. I want to thank——

Mr. **Jenkins**. Mr. Chairman, I want to say that in the case of Flue-cured tobacco, the assessment right now becomes a stock certificate, which is taxable income to the farmer, of which most of them will not even have the money to pay the taxes on, the way the farm economy is in North Carolina right now.

Mr. **Rose**. I want to thank all of you for this very distinguished panel presentation. We have a farmer panel that we are going to have to ask to come back at 1:30, and begin our afternoon session.

I wanted to thank all of you for being here. The subcommittees will stand in recess.

Mr. Hopkins is asking permission for the hearing record to remain open for a few days. The Burley Farmers Advisory Council and possibly the Kentucky Farm Bureau may want to send a copy for the record. We will be glad to receive them, if they are submitted.

We will be back at 1:30.

The subcommittees stand in recess.

[Whereupon, at 12 o'clock noon, the subcommittees recessed, to reconvene at 1:30 p.m.]

AFTERNOON SESSION

Mr. **Rose**. The subcommittees will resume sitting.

I want to thank our farmer panel from North Carolina for being willing to come back after our break, and I apologize for holding you over, but we look forward to what you have to say.

We have with us now Mr. Richard Jenks from Apex, NC; Mr. Fred Burt from Wake County, NC; Mr. Bobby Stephenson from Johnston County, NC; and Mr. Philip Duncan, from Columbus County, NC. If you would like to proceed in any order you choose, gentlemen.

Mr. Jenks.

STATEMENT OF RICHARD J. JENKS, FARMER, APEX, NC

Mr. **Jenks**. Mr. Chairman, members of the joint subcommittees, I will read from the statement that I have prepared. I have some changes I need to make into it. I am Richard Jenks, a Flue-cured tobacco farmer from Apex, NC. I serve as the president on the board of directors. I express appreciation to you for holding this hearing on H.R. 2600, and allowing me this opportunity to appear before you today.

Tobacco farmers in my community are now in a very difficult financial situation. That situation is so critical that they will not be able to survive without some assistance from the Government. We are not asking for a handout. We are asking you to favorably consider and report out H.R. 2600 to help us work out of a difficult problem.

The problem is that under the No Net Cost Tobacco Program Act of 1982, loan stock accumulations over the past 3 years, for which growers are responsible, have reached 541 million pounds, with the threat of another 200 million pounds could be placed on the loan out of the current crop.

In the 3 years I have operated under the No Net Cost Act, growers assessments have increased from 3 to 25 cents per pound. In fact, it now costs approximately $10 million per month to carry Stabilization stock. At 25 cents per pound, approximately $550 per acre comes out of the growers' income. For example, if I had 20 acres last year, this year I could expect $11,000 less from these 20 acres in 1985 than in 1984. Those $11,000 are income out of my pocket, and you can imagine who is going to benefit from that $11,000; the tobacco manufacturers. I will also be liable for the $11,000 additional income on the tax revenue.

Let me share with you my view of what has caused the buildup in loan stocks over the past 3 years. When the No Net Cost Program was enacted in 1982, the United States and many other countries were experiencing a recession. Foreign countries were taking advantage. Tobacco was one of those commodities used.

With our program, we agreed to keep supply in line with demand for price support. Every time we cut our quotas, the world production would increase, thus putting more tobacco on the world market at a cheaper price, which makes imports more favorable to domestic use.

The value of the dollar increased by 25 to 30 percent. Therefore, naturally, it takes more of other countries' money to buy U.S. tobacco while it at the same time makes imports more favorable for domestic use.

Unemployment in the United States reached high levels, meaning less money in the economy, which meant less money to be spent by people for items of luxury. Antismoking campaigns, and coming up this morning I was placed in the smoking section of the airplane. The cab driver said no smoking. There are no smoking signs just about everywhere in the halls of Congress, and on top of that, just recently, a no smoking restaurant opened in Raleigh. This morning was the first time I have been in this particular building, and I have not seen any no smoking signs. This is the part that I would like to apologize to you. I have been attending the USDA meetings, and in there, I find no smoking signs everywhere.

Tobacco farmers cannot bear the burden which was created by those circumstances coming together at almost the same time. As long as we bear the responsibility for the loan inventories, and we still have to pay assessments of 25 cents or more per pound.

H.R. 2600 is needed to provide us some help in order to make U.S. tobacco more competitive. I will not be able to stay in business as a farmer without it. I believe this is necessary to help farmers get across a very difficult period. A stable economy, for many rural communities, especially in my State. Consumers of tobacco products are the payers of excise taxes on cigarettes, up to 2 cents per pack of cigarettes to help the tobacco for this period.

In closing, tobacco has meant so much to this country, from the Indians who were already on this continent using tobacco when Christopher Columbus discovered this continent; to the first settlers who used it. The universities of our great State, that was built by tobacco fortunes, received in excise tax on tobacco. I hope you will look favorably at H.R. 2600.

Thank you.

[The prepared statement of Mr. Jenks appears at the conclusion of the hearing.]

Mr. ROSE. Thank you, Mr. Jenks.

Mr. Fred Burt.

STATEMENT OF FRED W. BURT, FARMER, WAKE COUNTY, NC

Mr. BURT. Mr. Chairman and members of the subcommittees, I am Fred W. Burt, a tobacco farmer from Wake County, NC.

I thank you for the opportunity to speak today on behalf of H.R. 2600, the Tobacco Equalization Act of 1985. I believe this plan is the only plan that will save the tobacco farmer and leave him with some control of his own business.

The most serious problem facing tobacco farmers began with the passage of the no net cost program. This law placed the entire burden of financial support for the tobacco program on the farmer when he was at the mercy of several factors beyond his control.

The first of these factors is imports. Tobacco imports to the United States have skyrocketed since the late 1970's. This has displaced much of our domestic sales and has caused increased stocks in Flue-cured Stabilization. The second factor is the strength of the dollar. A strong dollar has made our tobacco much more expensive and foreign tobacco cheaper. Lastly, it appears that the tobacco companies are using the no net cost program to legally destroy the tobacco program. Let me explain how I see these factors affecting my livelihood:

In 1981, the year before no net cost went into effect, the average support price for Flue-cured tobacco was $1.58 per pound. The crop was of average quality and only 9 percent was placed in Stabilization. In 1982, the first year of no net cost, a smaller crop due to quota cuts was produced of vintage quality. The average support price was $1.69 and 26 percent went to Stabilization. Equivalent percentages apply to 1983 and 1984.

Farmers are responsible for any losses to Commodity Credit Corporation for these crop years. The tobacco companies continue their call to lower the support price to $1.40 per pound. I believe this is totally unrealistic.

They were very willing to buy our tobacco at $1.58 support price when the Government was responsible for any losses, but are reluctant to pay 11 cents more when farmers are responsible. I have also determined that the tobacco in a pack of cigarettes costs 6.1 cents at a price of $1.80 per pound, and to reduce the price to $1.40 per pound would only decrease the cost of tobacco to 4.7 cents per pack. The companies sure are screaming about tobacco costs when it would only reduce the price of cigarettes by 1.4 cents. Yet, to reduce the support price to $1.40 would bankrupt the majority of tobacco farmers in my area.

The value of the dollar has caused U.S. tobacco to be 25 to 30 percent less competitive in world markets. At the same time, that overvalued dollar has made foreign Flue-cured tobacco much less costly to domestic manufacturers. Imports of foreign tobacco have entered the United States in record volumes since no net cost began. This imported tobacco displaced our tobacco from domestic use, caused it to be placed under loan, and drove our assessments to 25 cents per pound; or in my case, a $25,000 reduction in farm income.

The tobacco companies say that our tobacco is overpriced in the world. They say $1.40 would be more competitive with Brazil, our chief competitor. I do not wish to compete with Brazil and cannot, given their cheap labor, cheap land, and use of horses instead of tractors. I also believe that Brazil's triple digit inflation will soon cause their tobacco to be as expensive as ours within 2 to 3 years. The companies know that they must get a price reduction now or the issue will be gone soon.

Now, let me focus my comments on the two major proposals to aid the tobacco program. The first proposal is the so-called buy-out plan. I am sure most of you are familiar with its major points. I would, however, like to mention some questions that I have concerning this plan.

First, the buy-out plan gives no assurance of relief from the 1982-84 crops that are proving burdensome to the farmer. What is going to happen to these stocks of tobacco?

Second, the price support formula that the companies are wanting gets away from cost of production to less than market average. This could be manipulated by the companies and would lower the price support each year instead of increasing it.

Third, the buy out is going to cost the taxpayer around $1 billion. I know that this is going to be very difficult for Congress to accept with the problem we have with the deficit. This would give the tobacco companies a large subsidy; these companies reported record profits for 1984. I know of no farmer who reported record profits in 1984. In fact, most of us are having trouble just making a profit.

Fourth, the companies have not shown good faith in their negotiations. They are continually changing demands in negotiating the buy out. When one company has its objections solved, another company raises an objection; and

Fifth, finally, imports are not addressed in the buy out. After all is done and the buy out occurs, what is to prevent the companies from letting Stabilization fill up again and buy foreign tobacco? We would be in the same mess again.

The second proposal is the one which we are here to discuss today, H.R. 2600. I see this plan as the only plan that can save the tobacco farmer. It will shift some of the burden of the tobacco program to the tobacco companies. I see several points that are attractive not only to farmers, but to Congress as well.

Congress will not have to pay $1 billion to the companies to buy Stabilization stocks. The tax will encourage them to buy from Stabilization stocks or American tobacco instead of foreign tobacco so the tax can be reduced. This would also help reduce Stabilization stocks and keep them low.

Finally, this maximum 2 cents would not lead to reduced sales as the companies fear. Two cents would hardly be noticed by the consumer. The companies must believe this since they have increased cigarette prices by 2 cents a pack twice a year since 1983.

Some organizations do not support H.R. 2600. I do not see how they can support the buy-out plan that takes millions from struggling farmers in the form of assessments and gives it to record-profit-making companies. H.R. 2600 would relieve them of these assessments.

I have talked with many farmers in my area and have explained both the buy out and the 2 cent tax proposal. After talking with these farmers, they all agree that H.R. 2600 is the only plan that will work.

I have voiced my concerns about the tobacco program to representatives of both Reynolds and Philip Morris. They appear indifferent to the plight of tobacco farmers. I trust that through your support of H.R. 2600, tobacco farmers may be able to protect their livelihoods. I am not asking to be a millionaire; just to have a reasonable chance to make a living in the business I love—farming.

In conclusion, H.R. 2600, the Tobacco Equalization Act of 1985, which has a lot of farmer support, is the only plan that can save tobacco farmers. It will place some of the burden on the tobacco companies and encourage them to buy our high quality American tobacco. The American colonies survived on and had their first trade in the export of tobacco. Tobacco helped to build our great Nation. I trust that your support of this bill will continue this long and great tradition.

Thank you for allowing me to appear before you today.

Mr. Rose. Thank you, Fred Burt.

Bobby Stephenson.

STATEMENT OF BOBBY STEPHENSON, FARMER, JOHNSTON COUNTY, NC

Mr. Stephenson. Mr. Rangel, Mr. Rose, and members of the subcommittees, I thank you for this opportunity to appear before you and make this statement concerning H.R. 2600.

My name is Bobby Stephenson of Route 1, Smithfield, NC. I am a tobacco farmer. My only occupation now or in the past has been farming. I am 47 years old, married and have 4 children, all girls. My oldest is a graduate of N.C. State University and the next daughter is a graduate of U.N.C., Greensboro. They are both employed and are doing well.

My two younger daughters are ages 9 and 11. They are very bright and do well in school. My wife, Lois, does not work away from the farm. She has dedicated her life to being a good wife, mother, and an equal partner in our farming operation. Her duties in the farming operation are tremendous. We could not carry on the operation that we have without her input.

My farming operation consists of a total of 740 acres. I have 50 acres of tobacco with the remainder in corn, 250 acres; soybeans, 300 acres; wheat, 130 acres; and cucumbers, 10 acres. I own 120 acres and rent the rest. I did not inherit this land; I bought it in 1962 and have lived on this farm ever since. Farming has been good to me in the past. Of course, we have had better years than others. I have never experienced a complete crop failure, but I have had years that we have had to struggle. As a matter of fact, it has gotten to the point that you put your entire equity on the line with each crop you plant.

Now I would like to talk about tobacco. Tobacco is my most important crop. You can see by my figures that tobacco represents only about 7 percent of my total acreage; yet tobacco represents approximately 75 percent of my gross income. I know you must be thinking by now that with those figures I ought to be doing all right. Well, gentlemen, I am not doing all right.

As a matter of fact, if things go on like they are now, I will not be growing tobacco or any other crop many more years. With the cooperative that operates the loan program holding 800 million pounds of Flue-cured tobacco and our quotas having been cut drastically the last few years, and with the cigarette companies importing more and more of their needs, we are on a collision course with disaster.

Unless something turns around, I will be bankrupt in a very short time. I have a very good crop of tobacco growing right now, and I need to be home working right now. I will start harvesting next Monday. The selling season starts in 2 weeks. The prospect of the cooperative taking in another 200 million pounds is frightening, but very realistic.

I would like for you to consider the fact that for every dollar I gross from tobacco, some level of Government takes in almost $5. Now, in light of these facts, I hope you people can see that with H.R. 2600, we are only asking for a small portion of these taxes to be returned to the tobacco program to assist tobacco farmers through a very difficult period. If this legislation or some other development does not take place in regard to tobacco policy, thousands of people like me will be leaving the farm and seeking income from other sources.

Gentlemen, if thousands of farmers leave the farm and are sold out, the ripple effect that will take place will be so great and far-reaching that it will shake these very halls we stand in today.

I urge you to support this legislation. Thank you.

Mr. Rose. Thank you, Mr. Stephenson.

Mr. Philip Duncan.

STATEMENT OF PHILIP DUNCAN, FARMER, COLUMBUS COUNTY, NC

Mr. Duncan. Congressman Rose, Congressman Rangel, we appreciate this opportunity. I would first off like to say thank you for allowing us to be here. We thank you for inviting us. The first thing I would like to do is "ditto" to what these three good farmer friends of mine have said.

I will not go through the statistics like they brought out here, but I would like to say that I was at two meetings in Columbus County within the last month and a half. One, Congressman Rose, you were there; you conducted that meeting, about 50 people were there, and then Bob Cawdle conducted one a couple of weeks ago; he is an assistant to Senator Helms in North Carolina, and probably 25 to 30 were there.

Of those farmers in Columbus County, there was not one who was opposed to the 2 cents excise tax or H.R. 2600. It has widespread support in our area of the world.

In the 1985 tobacco bill introduced by Senator Helms, it does not address imports, nor adequately address support prices. The code phrase behind this is market-oriented. The tobacco farmers in my area of northern South Carolina are totally in favor of H.R. 2600, and we plead for relief such as this 2 cents tobacco equalization fund excise tax price.

We need support in reducing the support price somewhat, we believe; not too much; somewhere around $1.45 to $1.50 a pound. The farmers in my area say that is OK.

Tobacco farmers do not want to be the serfs or the slaves of manufacturers. We do not believe manufacturing interest, when they say "trust us." We do not believe that.

Thank you very much, gentlemen.

Mr. Rose. Thank you very much.

Are there questions by members of the subcommittees?

Mr. Rangel. I just want to thank the panelists for being very informative. With the information that I have heard this afternoon, and also this morning, rest assured that when the Committee on Ways and Means approaches this question, it will not be without consideration for the plight of our great farmers and this industry.

Mr. Rose. Thank you, gentlemen.

Our next witness is Mr. Billy Carter, the president of the North Carolina Tobacco Growers Association, Scotland Neck, NC.

Mr. Carter, we are glad to have you. We will be happy to hear whatever you have to bring us, sir.

STATEMENT OF W.L. CARTER, JR., PRESIDENT, TOBACCO GROWERS ASSOCIATION OF NORTH CAROLINA, INC.

Mr. Carter. Chairman Rose, I am W.L. Carter, Jr., a tobacco farmer from Scotland Neck, NC, and president of the Tobacco Growers Association of North Carolina, Inc. We are a commodity association representing both Flue-cured and burley tobacco farmers in North Carolina. While membership in our association is open to both active and nonactive tobacco farmers and to all others interested in North Carolina tobacco, the overwhelming majority of our members are full-time tobacco growers who depend on this crop for their livelihood. We appreciate the opportunity to express our views on H.R. 2600.

We believe that the impact of a bill such as this on active tobacco farmers and nonactive allotment owners should be taken into account, not to mention the related industries and local economies. But it should be obvious to all concerned that the impact on the active grower is of paramount concern, because if he cannot continue in tobacco, no one else can.

Judging from the positions you have taken, Congressman Rose, I am sure you understand the unique problems of the active tobacco grower. My purpose today is to try to persuade you and others on these two subcommittees that H.R. 2600, far from helping the active farmer, would be extremely injurious to him.

It is a matter of public record that our association is opposed to the concept of a special excise tax as a way of dealing with the problems facing our tobacco program. That, unfortunately, puts us in opposition with you. But I feel your analysis of the basic problems is substantially the same as ours. They are:

One, our program is in trouble. The no net cost program is not working as envisioned;

Two, growers cannot afford assessments at the levels proposed for 1985;

Three, these assessments cannot be treated as taxable income;

Four, growers have got to have some help in disposing of the 1982-84 crops, both burley and Flue-cured, that are being held under loan. It is just as appropriate to use tax moneys to help tobacco farmers out of a financial crisis as it was to help dairy, grain and other farmers who found themselves in similar positions a few years ago; and

Five, we cannot regain our rightful place in the world market unless we reduce our prices.

Where we begin to disagree is whether your approach to solving these problems by attempting to force the smokers to pay the costs is the most desirable one. We don't feel it is, for the following reasons:

One, tobacco farmers have always opposed special taxes on their products. A cigarette excise tax is regressive in nature and we have always opposed earmarking this tax for any special use. In 1982, we collected signatures from thousands and thousands of tobacco farmers opposing the doubling of the cigarette excise tax. It seems a bit hypocritical to us to now reverse ourselves and support both an increase and an earmarking of the funds just because it will be of direct benefit to us. It was wrong before and it's wrong now.

Two, we believe that if farmers support a bill that adds to the excise tax on cigarettes—at 8 or 16 cents or whatever—it gives aid to those forces who want to significantly increase this tax—perhaps to as much as 40 cents—and earmark a portion of all of it for Medicare and other health-related programs.

We believe this bill will further antagonize the enemies of tobacco because they will see us as now competing with them for the use of these funds. In other words, if a portion of these funds is used to support the tobacco program, they are not available for some other purpose.

Three, most informed observers of the tobacco situation agree that much of our problem as it exists today stems from the fact that we allowed the price of our tobacco to escalate too fast for too long. We have not been price/quality competitive in the world market for several years.

Evidence of this is seen in the 800 million pounds of Flue-cured and 500 million pounds of burley now under loan. Most of it is there for one reason alone—it was supported at a price level higher than the market was willing to pay. H.R. 2600 does not address this very basic problem, and we believe until we do something about our prices, any step we take is simply another Band-Aid. We have had too many of those already.

I think it is safe to assume that if our price supports remain at current levels—or once again begin to escalate as they will if no legislation is passed—our Stabilization cooperatives will receive increasing amounts of tobacco each year. We have tried as much as possible to learn from the buying trade what will happen on the 1985 market if the effective price supports for Flue-cured remained at $1.70.

The picture they paint for us is grim. Estimates of 100, 200, and even as much as 300 million pounds of this year's estimated 765 million pounds of Flue-cured crop could go under loan. If the average price is $1.80 per pound, you are talking about $540 million we will need to borrow from the Commodity Credit Corporation. At an interest rate of 10 percent, that is an average annual cost of $54 million.

If you assume you have to eventually discount that tobacco 30 cents per pound to move it, that is another $90 million or a total of $144 million in accrued costs for the 1985 crop even if you disposed of it by the end of 1986. And in addition to the cost, there would be a serious effect on the quota for 1986.

Four, in your news release of July 2, 1985, announcing this hearing you stated: "Passage of the special excise tax plan would make sure that tobacco companies bear part of the cost of the tobacco program." That seems extremely unlikely to us. Rather, we think the cigarette manufacturers will pass this tax along to the consumer just as the oil companies and the service stations passed along to the motorist the increase in the Federal tax on gasoline.

Consumers—the smokers—and farmers will bear the costs of this tax. It is an accepted fact that cigarette consumption is influenced by price. Thus, any increase in price, for whatever reason, causes consumption to go down. The year following the doubling of the Federal excise tax, cigarette sales dropped 5.5 percent.

The impact on our market was severe. Since the manufacturers normally keep a 2 to 3 year supply of tobacco on hand all the time in order to age it, they suddenly found themselves with 12 to 15 percent more tobacco than they would need for the next 3 years. The result was a sharp reduction in purchases by the manufacturers as they made adjustments in inventories, and it was coupled with a dramatic increase in the amount of tobacco that went under loan. The net effect on me as a grower has been a 23-percent cut in Flue-cured quota since 1982. That is a trend we must reverse.

Five, we believe, even if H.R. 2600 is passed by this Congress, consumers—particularly those outside the major tobacco-producing States—will rebel against this tax. They will view it as a taxpayer subsidy for a program that refuses to address the realities of the marketplace and will feel it is unfair to single them out to bear that cost.

I wonder, for example, how long the smokers in New York State will be willing to pay an additional $44,014,000 a year in taxes to support my tobacco program? At 2 cents per pack that is what it will amount to every year. Or, smokers in Illinois, who will be spending an extra $29,676,000 annually. Or smokers in California or Texas who will annually pay an extra $54 million and $36,800,000, respectively, because of this tax.

Gentlemen, the combined annual cost of this tax to the smokers in just the eight most populous States represented on the Ways and Means Committee will be $265,564,000. It seems quite possible that a tax increase of this magnitude would attract a Presidential veto, not to mention the attention of voters in those States.

Six, finally, we think it is safe to assume, if this bill passes, there will be no buy out by the cigarette manufacturers of tobacco currently held under loan as is proposed in the legislation now under consideration by the Senate. We believe this will substantially increase the losses that farmers and/or taxpayers will eventually have to assume on these stocks since the manufacturers will not be assuming any share of these losses. We need to be looking for ways to cut our losses, not increase them.

In conclusion, our association wants to express to Congressman Rose and his committee our appreciation for the efforts they have made over the past 4 years and continues to make to help find a workable solution to the problems our industry has been facing. We know from personal contacts and involvement with you how much time and energy you have expanded on our behalf and at times we have almost been embarrassed over the demands we have had to make. We want to continue working with you because we are convinced we both have the welfare of the grower foremost in our minds. We wish we could feel that H.R. 2600 was the answer to our problems but for the reasons I have listed, we do not. We cannot support the bill.

We believe that active tobacco farmers will be the victims, not the beneficiaries. We believe more comprehensive legislation, such as is contained in S. 1418, is necessary. We hope that you will become involved with this bill, and if there are changes you feel are necessary in order for you to be able to support it that you will talk with us about them.

Thank you, sir.

Mr. RANGEL. Mr. Chairman.

Mr. ROSE. Mr. Rangel.

Mr. RANGEL. Mr. Carter, you fully appreciate, that when the Ways and Means Committee deals with the subject of excise tax, we have to deal with tax policy and not farm policy. One of the reasons Chairman Rostenkowski encouraged us to have this joint hearing is that we make certain that while we are attempting to raise revenue and enact tax policy we do not adversely affect a broad constituency in the farming area.

If I understand your testimony correctly, if the Ways and Means Committee decides that as a matter of tax policy we are going to maintain the 16-cent tax, is it your position that you would not want us to consider any 2 cents of that 16 cents that we——

Mr. CARTER. If that is all the legislation contains, no, sir. I do not think it would help the farmer in the long run.

Mr. RANGEL. Thank you.

Mr. ROSE. Let me change it a little bit, Billy, because you know I am only attempting to address the circles in my legislation, and you are raising a red herring, when you say it does not effectively address all the problems. You know I got on the telephone at the meeting of Stabilization, and had a discussion with the Stabilization board, with Reynolds people present; where we worked out all the details of other things that needed to be done; and you know I support that, but let us assume that S. 1418 is not successful; that regardless of what tactics may be used in the Senate to get the

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Senate to look at S. 1418. Let us suppose it does not go anywhere because it is $1,200 million.

If we coupled with what Mr. Rangle just asked you, the question that he asked you, if we coupled with that legislation that reduces price supports and changes the escalation for future rises in the price support level, and changes the way the burden is borne on the no net cost program, and gives Stabilization more authority in running the Tobacco Price Support Program, which is something I support, could you support this approach?

Mr. CARTER. Congressman, I do not think that this bill, coupled with the changes you are talking about, will be quick enough to have anything left to save.

Mr. ROSE. Do you think S. 1418 is going to go anywhere by next week?

Mr. CARTER. No; I am saying that some changes must be made for the 1985 season.

Mr. ROSE. I was on the telephone yesterday with Mr. Whitley, Mr. Thomas, and Mr. de la Garza, asking Mr. Block—we had a conference call with him, and we asked him to please roll back the price support levels as has been suggested by Senator Helms. Let us not get confused with that.

Mr. CARTER. If that were the case, if that were done; I could not support an excise tax on the tobacco program. Those changes would be——

Mr. ROSE. Wait a minute. If the Senate program does not pass, Billy, if it is defeated, if the Senate refuses to give $1,200 million to buy tobacco and give it to the cigarette companies, because who gets the tobacco? Under my plan, Stabilization's loans are paid off and the tobacco stays where it is now. It stays in Stabilization stocks, because it is paid for. Mr. Rangel said to you if the Ways and Means Committee, in its wisdom, decides to keep cigarette taxes at 16 cents, would you object to 2 cents of it going to finance the program in the way that we have described? If it is the only recourse?

Mr. CARTER. Yes, sir. I would agree then.

Mr. ROSE. You would agree what then?

Mr. CARTER. If after all recourse, there was any option, we would not be left with any option, but I do not think that has been tried.

Mr. ROSE. You do not think we are there yet?

Mr. CARTER. No, sir.

Mr. ROSE. But if we correct the problems in the way the program is run, and if the Senate of the United States and the House, or either one or both refused to give $1,200 million to bailout the program, you would have no objection as a last recourse to the 2 cents being used.

Mr. CARTER. I would certainly have to reconsider my opinion.

Mr. ROSE. Wait a minute. You said a minute ago you would not have any objection. Which do you mean, Billy?

Mr. CARTER. As that being an avenue for financing the tobacco program after all else had been exhausted.

Mr. ROSE. In your testimony you talk an awful lot about how consumption would be hurt, or was hurt by cigarette taxes. You did not mention in your testimony at all what Mr. Oliver pointed out, and that was that the cigarette companies paid a 40-percent increase in the price of cigarettes.

Was that an omission, or did you just not think that had anything to do——

Mr. **Carter**. I think that is one——

Mr. **Rose**. Is that one of the factors in cutting consumption?

Mr. **Carter**. No. That is one of the factors being opposed to taxes.

Mr. **Rose**. You said that the tax increase hurt consumption.

Mr. **Carter**. Yes, sir.

Mr. **Rose**. But you didn't say that the wholesale price increase of cigarettes hurt consumption, but Mr. Oliver pointed out that there was about a 40-percent increase in cigarette wholesale prices, and only an 8-cent increase in taxes.

Do you not think, Mr. Carter, that an increase in the price of cigarettes——

Mr. **Carter**. I am sure that contributed to it.

Mr. **Rose**. But you didn't mention that in your report.

Mr. **Carter**. No, sir; I did not.

Mr. **Rose**. Mr. Whitley.

Mr. **Whitley**. Thank you, Mr. Chairman.

Mr. Carter, I first want to say that I have a high regard for you and your organization. I think you came on the scene, and served a purpose, served the growers, and not other interested related groups. However, I would like to ask you this question, the same one I guess I raised with Senator Gore this morning.

By the way, I agree with you. I think doubling the cigarette tax had an impact on tobacco sales. I think the companies made a decision at that time to reduce their purchases that year, and did. I would remind you that at the time, we, those of us who represent the tobacco producing areas, we were assured that it was going to be a temporary thing. It was going to sunset in 3 years.

The Sun is supposed to set on September 30 of this year. As Chairman Rangel said, if the Sun does not set on September 30 of this year, if we are going to pay 16 cents anyway, do not you think that simple equity to the tobacco grower requires that tax which has hurt him be used to support the program?

Mr. **Carter**. I would have to go back and say again, Congressman Whitley, being that the only change, no, I do not think in the long run, I do not think that is going to help the tobacco farmer. I think that is going to create the same situation in which he is operating now.

It is going to shift the burden of the operating program from the farmer and keep the same system as it is. The whole system——

Mr. **Whitley**. I agree with you this is not supposed to be a complete solution. As I understand it, it is not supposed to be a complete solution. It is supposed to be an effort to find some temporary funding to tide us over a bad situation.

Another solution is the supposed buy out. My question to you is, if we are going to have the 16 cents tax on cigarettes anyway, if you take it as a given, and that tax was a factor for the tobacco that went into Stabilization 2 years ago. Now, taking that also as a given that it makes no difference to the smoker what the tax is used for. If he is going to have to pay it anyway, I suspect that increasingly, nationwide, as people see the plight of our farmers in all aspects of the agricultural economy on television, and otherwise, that the public will be willing to subsidize the farmers who are having such a difficult time. So do you not think in view of all that, if we are going to have a 16-cent tax on cigarettes anyway, that it wouldn't be unreasonable to earmark a couple of cents out of it to try to help the tobacco farmers in this temporary problem?

Mr. CARTER. The people who tell me what to say have told me that we do not support the tax increase on the cigarettes. Going back to the comments that you made on subsidies, because I am a tobacco farmer in my opinion makes me no different than any other farmer in the United States; and I think any subsidies I might get should come from the same coffers as any other farmer in the United States, so if the tax is going to be an excise tax, going into the coffers of the Federal Government, it is coming from the same place, other than what excise tax you are making users pay that direct cost.

By the same token, someone else is going to look at that same process, and come up with 1,000 other ideas of earmarking funds for the support of various commodities in the United States, and I really do think that an earmarked excise tax is not the way——

Mr. WHITLEY. Well, if an earmarked excise tax is not the way to go, and if you assume, the way many witnesses have done today, that the Senate bill is not politically valid, then where are we?

Mr. CARTER. We are in a lot of trouble.

Mr. ROSE. Any other comments?

Mr. Thomas.

Mr. THOMAS of Georgia. Billy, let me ask you something. Coupled with all the other changes that Chairman Rose enumerated that should be considered, and I am committed to things like getting our price competitive; putting any kind of programs, and doing anything that would help augment a trend back to quality tobacco, and doing everything that we have to do in cooperation, the various members of the tobacco family; what if you had an opportunity, and say we passed our proposal, H.R. 2600, we then owned the tobacco that was in the pool, and rather than putting that tobacco into the trade and selling it by Stabilization, or putting it into the flow, what if we offered to sell you as a grower, if we indeed accomplish this, to sell you that allotment in the form of a quota, so you could increase the tobacco you are growing on your farm, feeling that the program was solid, perhaps, getting some signals to that effect, from the various factors, where you could make some long-term commitments? How many acres are you growing now?

Mr. CARTER. Fifty-five.

Mr. THOMAS of Georgia. What was the most acreage you grew?

Mr. CARTER. Fifty-five.

Mr. THOMAS of Georgia. Would you be interested in increasing your quota?

Mr. CARTER. Sure.

Mr. THOMAS of Georgia. Well, this is one of the kind of myriad of things I think would possibly be considered. I would certainly want to pursue it as a member of this committee, that rather than put that tobacco in trade, because that is where that tobacco has gone.

At any point, trying to sell it, whether in one lump sum, or whether Stabilization owns it, and, you as a grower are going to be competing with that tobacco if it is put back into use. I would much rather see a quota put back on the land, under a new set of circumstances, where we will not allow a lot of unacceptable tobacco building up, and causing the problem.

Mr. **Carter**. Our association has such an idea that never got a whole lot of support, but we feel that you have a good idea.

Mr. **Thomas** of Georgia. Well, keep in mind that this is the only way it could work. It would not work if you opted for the other program. I hope you think about this very carefully.

The other thing that concerns me is, you keep talking about this as an excise tax. I have sat in a number of hearings where we have had a number of hearings about the administration's conversations about user fees. They do not want to call anything a tax.

Now, I can cite you a number of cases where this has been done, and so here let us think about this as sort of a user fee. It is being put on people using tobacco products, and if it does have the effect that I laid out this morning, not only is it on the user, and the person manufacturing, you are confining a very controversial crop, and I agree with you, I wish tobacco was treated like every other commodity on this Hill; but it is not.

It is an entirely different situation. It is an entirely different situation when you have to defend it and work for it on this House floor, and in the halls of Congress, and I want you to think, I hope you will take them back to your group and think about them.

I think this is a far more palatable bill to swallow on than going back to what we will have to do if we pass the Senate version, which is to say to the taxpayers in this country, you are going to have to cough up $1 billion so we can keep the tobacco program going. I cannot see it going any other way when that program is debated.

Mr. **Rose**. Thank you, Mr. Carter.

Our next panel is Mr. Gene Paramore, from Grimesland, NC; Mr. Atlas Wooten, Pitt County Farm Bureau Tobacco Advisory Committee, from Ovenville, NC; and Mr. Larry Wooten, from Currie, NC.

Glad to have you, gentlemen, and Mr. Paramore, you may proceed, sir.

STATEMENT OF GENE PARAMORE, PRESIDENT, PITT COUNTY FARM BUREAU

Mr. **Paramore**. Mr. Chairman, my name is Gene Paramore and I am a tobacco farmer in Pitt County, which is located in eastern North Carolina. I am also president of Pitt County Farm Bureau at this time. I am here today to speak on behalf of H.R. 2600. I must tell you that the only way I could possibly be here is because I have a son who decided 5 years ago that he also wanted to be a farmer, and he is back home supervising this year's harvest which is now under way. Our tobacco operation consists of 33 acres, split 18 for me and 15 for my son.

We have watched in amazement and horror as the No Net Cost Program that was enacted in 1982 has carried us from a 3 cents per pound assessment to the present 25 cents per pound, while our prices received have been frozen, cost of production and imports have continued to increase, and inventories in Stabilization have escalated during this time.

We realized from the beginning that this could easily happen if for any reason, such as the increased value of the American dollar, et cetera. The buyers, be they domestic or foreign, saw fit not to purchase virtually all of each year's crop, as the total financial responsibility is on the American producer. Therefore, it only seems logical to us that as producers of a commodity that contributes billions of dollars to our Treasury annually, we be allowed to use 2 cents of the existing 16 cents tax to keep our tobacco program viable.

Clearly, thousands of American tobacco farmers' standard of living and survival is at stake. Now that the courts have cleared the way this year for Stabilization to sell tobacco directly to foreign makers of cigarettes, it is obvious that a marketing force must aggressively sell our tobacco and its quality as never before.

I feel confident that the board of directors of Stabilization will see that this responsibility is carried out because I am sure they are as aware as we are that the wheels of progress will not go forward until someone sells something.

In order to accomplish this, we as producers need a certain amount of time and revenues and we have precious little of either. Therefore, we feel that a positive vote for H.R. 2600 would assure us of a chance to compete and succeed in the future. Thank you very much for your time.

Mr. JONES of North Carolina. Mr. Chairman, I would like to make a suggestion that we recess for 10 minutes, because I would like to hear this tesimony.

Mr. RANGEL. The subcommittees will stand in recess for 10 minutes.

[Recess taken.]

Mr. ROSE. The subcommittees will come to order, please. At this time, we will call on Mr. Atlas Wooten, chairman of the Pitt County Farm Bureau Advisory Committee for any statement he would like to make.

STATEMENT OF ATLAS WOOTEN, CHAIRMAN, TOBACCO ADVISORY COMMITTEE, PITT COUNTY FARM BUREAU

Mr. A. WOOTEN. Mr. Chairman, in 1982 Congress ruled that if a tobacco quota and price support program was to be continued, it must be operated at no cost to the Federal Government except for such administrative cost as would be necessary to operate such program. Also, it was determined that the price support for tobacco would be frozen at the 1982 price support level for the 1983 and 1984 crops in order to guarantee a no cost to the Government program. There was to be an assessment per pound which would be paid by the producer at the time of sale of his tobacco.

In 1982 the price support was $1.69 and six-tenths of a cent per pound and the assessment was 3 cents per pound, which was deemed adequate by past sales experience. However, much more tobacco went into the co-op than was expected and in 1983 the assessment had to be raised to 7 cents per pound on tobacco planted and owned by the producer with an additional 7 cents per pound on that leased and transferred. Again in 1983 the co-op take was larger than expected, so the 7 cents remained in effect for all tobacco sold in 1984.

At the same time the amount of tobacco going under loan was increasing, sales by the co-op were decreasing, which has resulted in Stabilization currently having 535 million pounds of tobacco from the 1982, 1983, and 1984 crop years still in storage.

Today it appears that if we are going to get back into the market in a meaningful way, we will have to reduce the price support drastically—possibly as much as 30 cents per pound. If this price-support reduction occurs, then it will be impossible for the producer to pay a large assessment and remain in business. Under no plan yet suggested for the near future does it appear we will be able to meet the requirements of the program without an assessment at some level. Thus, it appears we must seek a source of funds with which to help pay the cost of the program.

As much as we regret to suggest a tax upon the product we produce, I see no alternative but to request that 2 cents of the current 16 cents Federal tax collected on each pack of cigarettes sold be diverted to the No Net Cost Tobacco Fund to help guarantee against any loss by the program until we can get the program back on a self-supporting basis which I do feel is possible.

Thank you.

Mr. Rose. Thank you, Atlas.

Mr. Larry Wooten.

STATEMENT OF LARRY WOOTEN, FARMER, PENDER COUNTY, NC

Mr. L. Wooten. Mr. Chairman, my name is Larry Wooten. I am a Flue-cured tobacco producer in western Pender County of North Carolina. I appreciate this opportunity to appear before you today.

My purpose is to convey to you as strongly and sincerely as I know how, my support for the House resolution designating a portion of the Federal cigarette excise tax to go toward repaying CCC loans for tobacco taken in by the various tobacco stabilization cooperatives.

After months of negotiations and proposals and concessions by producers, the Rose bill seems to me to be the best alternative for maintaining a workable and viable price support program. The sums of money owed by producers for tobacco taken under loan are staggering, and there is no way that tobacco farmers can continue to pay for this program using grower assessments.

I do not feel that this Congress is in the mood to write off millions of taxpayer dollars to salvage the tobacco farmer and his program; nor do I feel that this Congress will sunset 8 cents of the present Federal cigarette excise tax on October 1 of this year. Cigarette consumer buying patterns have been set, and the elimination of this tax will not, in my opinion, result in a decrease of the retail price of a pack of cigarettes. I am asking that you enact legislation that will allow a portion of this tax to go to producers, so that we may settle our CCC balances and retain possession of the surplus tobacco.

With the inception of the No Net Cost Tobacco Program in 1982, we as growers knew the potential was there for our program to destroy itself. Since that time, economic concessions made by producers have not resulted in more American tobacco being purchased and utilized by the multinational manufacturers, and I question their sincerity and desire to make this program work.

It always amazes me that every time the problem of surplus tobacco arises and meetings are held by the tobacco industry—farmers, warehousemen, dealers, and manufacturers—and Government officials, after all the points are discussed it ultimately gets back that the farmer gets hit in the hip pocket and is asked to take less.

The millions of dollars realized by local, State, and Federal governments from cigarette taxes and the lucrative profits realized by tobacco companies from the manufacture and sale of cigarettes, inclines me as the producer of the basic, raw tobacco product to declare that I want and deserve my fair share of the consumer dollar.

Mr. Rose. Thank you, Larry Wooten, and thank all of you for being here. I would observe that Mr. Paramore and Mr. Atlas Wooten, are constituents of Congressman Walter Jones, and I yield to him for any comments he would like to make.

Mr. Jones of North Carolina. Thank you, Mr. Chairman.

I would like the record to show, as you mentioned earlier this morning, that I also contacted the Secretary's office, and talked to his secretary, and left what I felt was a very strong message. Apparently it did not have much effect. As I understand, he has announced it would be 170 at the present time. I think I am correct in that information.

I would like to make this general statement, regardless of whether it is the Senate bill or Mr. Rose's bill, I do not think there is a person on this subcommittee who is not concerned about one thing; and that is, if at all possible, trying to maintain a sane and sensible economically sound program, if possible.

To that end, I dedicate myself, and I would like to further state, Mr. Chairman, one of my main concerns that has not been expressed here too much today is the fact that we have got to, if at all possible, save the Stabilization organization, for without it, you have no program.

So whatever the best means of doing that, that should be done, and I admire Mr. Rose for taking the leadership that he has. I do not envy him, because I was chairman of that subcommittee for 9 years. Fortunately, we did not have this sort of problem.

He accuses me of getting out just in time, of which I plead "nolo contendere."

In any event, Mr. Chairman, I appreciate being able to make those remarks and I am sure the committee is of one mind; as well as all tobacco representatives, and that is to save the program if at all possible.

Mr. Rose. Let me ask you gentlemen, who are very familiar with the North Carolina Farm Bureau organization and their membership in North Carolina: Where do you believe the majority of tobacco growers in North Carolina stand, and how do you judge the wind so far as support of either of these proposals is concerned? And do not just be nice because you are here. Where do you see concerns and problems with the Senate approach? Where do you see support for the Senate approach? We have heard from the tobacco growers organization, and we have heard what they had to say.

I am proud that the farm bureau and your policy, and your tobacco board have been supportive, but what can you say?

Gene, maybe you want to go first.

Mr. **Paramore**. Congressman, the best way I know to answer that is to say I hope this is not inappropriate to say, that last, I believe it was the 29th of June we asked you to come down to Greenville, NC, for a meeting with our producers that we advertised for the purpose of explaining H.R. 2600 to our producers.

As you know, we had joint county participation. We had some 400 people attend the meeting as you are aware. I have yet to have the first phone call from the first angry producer; I have yet to be hit over the head by producers going down the road, to tell me what a lousy position we are taking.

I have the opposite. Everyone that I have talked to, without exception as a producer, has said it is the only answer that they can see that will bail you out of the problem that we have with 800 million pounds of tobacco in Stabilization; and I do not know of any answer to say if they were so opposed, they would have got in touch with me.

Mr. A. **Wooten**. Congressman, I thought I mentioned that on our advisory committee, we have a member from each county that represents the thinking of that county. We try to get that kind of individual.

We do support H.R. 2600, but we do not totally object to everything in the Senate bill as many would think. I think you explained it very well a while ago when you said that some of the things in the Senate bill, combined with some of the things you have, we do have objections to some part of the Senate bill.

I will say there are changes we would like to see in some parts of it. But we are not totally "no" to the Senate bill. That has never been the view of the North Carolina Farm Bureau, and it is not now.

We feel that somewhere with yours, and some parts of that, we can make arrangements to work through this thing, certainly the price support reduction, I think all of us realize that that is included in both thinking, if not in writing and the bill. We realize that we are going to have to follow up with other things such as that.

But that is the position of the North Carolina Farm Bureau. It is not, as many thinks, that we have totally jumped on that Senate bill, and kicked it all outdoors. We have not.

Mr. **Rose**. I thank you for that. I certainly believe that the main problem is that I do not think Congress is going to give $1,200 million to buy tobacco and give it to cigarette companies.

Mr. A. **Wooten**. We feel the same way.

Mr. **Rose**. I just do not want anybody to get false hopes about that.

Mr. Whitley.

Mr. **Whitley**. I am not personally acquainted with Mr. Atlas Wooten, but I am with Larry. I have known Larry Wooten a lot of years. I have visited in his home, eaten his wife's cooking, been in his barn. Larry was out sweating in a tobacco field yesterday.

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Two of my constituents have been here today, just a few minutes ago I had a constituent; Bobby Stephenson, from Johnston County, who sat right down with me, and I want you to know, Mr. Chairman, these people are dirt farmers. They are not here as officers in some organization. They are people whose livelihood depends on the tobacco program. I especially commend Larry for his long interest in this work.

If you want a real expert, not somebody just reading a statement put together by a bunch of lawyers, Larry Wooten is one, and I just want you to realize that is the kind of testimony you have here.

Mr. **Rangel.** I would like to respond to that by saying that while the Committee on Ways and Means really does not try to establish or set farm policy, we recognize that we are no stronger than the support we get from our colleagues. We have to make certain that any type of legislation that we propose to the House will have the support of the Members. I can think of no group, other than this Subcommittee on Tobacco and Peanuts, that has concerned us more; and I think they will be the first to agree that the Committee on Ways and Means, under this chairman, will do all we can do to support the farmer who has received more than his or her share of bad luck. We believe that we have a responsibility not just to raise money, but to protect those people who have really been the backbone of this great Nation of ours. This is a very unusual thing for the tax-writing committee to be with the Tobacco and Peanuts Subcommittee, but we think it is that important, and we value the testimony that we receive today.

Mr. A. **Wooten.** I would like to say that Mr. Paramore was in the field, harvesting tobacco yesterday. We are out there also.

Mr. **Rose.** Our next witness is David Senter.

STATEMENT OF DAVID SENTER, AMERICAN AGRICULTURE MOVEMENT, INC., PRESENTED BY KENT BOYD, VICE CHAIRMAN, CHRISTIAN COUNTY, HOPKINSVILLE, KY

Mr. **Senter.** Mr. Rose, Mr. Rangel, and members of the subcommittees. We do appreciate the opportunity to appear here today. I want to tell you that I am here representing wheat farmers, corn, cotton, cattle, ranchers, and dairy farmers.

Standing here beside and supporting tobacco farmers, because as never before, it does not matter what commodity you are involved in producing; if you are a family farmer, you have problems.

We are in support of H.R. 2600, and it is my pleasure to present corn, soybean, and it is my pleasure to present Mr. Kent Boyd to present our testimony.

Mr. **Boyd.** Mr. Chairman and members of the subcommittees, my name is Kent Boyd from Hopkinsville, KY. I would like to thank you for this opportunity to appear before you today in support of H.R. 2600, the Tobacco Equalization Act of 1985.

Tobacco growers currently live under a No Net Cost Tobacco Price Support Program which only growers pay for. Cigarette companies are not currently paying for the program, even though they benefit from it. But, they are driving program costs up by importing large amounts of cheap foreign tobacco and forcing domestic

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supply into Stabilization stocks. I believe that this bill would correct this inequity.

H.R. 2600 would replace the current producer assessment with a variable cigarette excise tax which will go into a Tobacco Equalization Fund. This fund will be used to offset the cost of the program.

The rate of tax will be adjusted each year to make sure all program costs are repaid. If tobacco companies continue to import large amounts of cheap foreign tobacco, the tax will increase. But, if they buy more domestic tobacco, the tax will be decreased.

I wholeheartedly agree with Congressman Rose that the time has come for everyone who benefits from the program to participate in it.

The excise tax proposal is a big change from current law, but tobacco farmers cannot continue to pay for a program that is being manipulated by cigarette manufacturers who do not have to worry about program cost. This bill would make them more responsible for program cost and help tobacco sales at the same time.

Thank you.

Mr. **Rose**. Kent, thank you very much.

David, thank you very much.

Any comments or questions by the panel?

Mr. **Rangel**. I just want to thank you for your testimony. It is very informative. Thank you very much.

Mr. **Rose**. Our next witness is Mr. Charles Freeman, the president of the United Farmers Organization of Pittsboro, NC, accompanied by Mr. Ernest Jones of Kingstree, SC, and Mr. Leon Crump, from Cheraw, SC.

Gentlemen, go ahead.

STATEMENT OF CHARLES O. FREEMAN, PRESIDENT, UNITED FARMERS ORGANIZATION

Mr. **Freeman**. Congressman Rose, and Congressman Rangel, we, the members of the United Farmers Organization, on December 13, 1984, adopted our tobacco proposals on a county level and were later approved by the two-State organization. These proposals were mailed to the U.S. Congress.

In section 2 of our proposals, we show that if the tobacco tax were increased 2 cents per pack in 1985, it would generate approximately $600,000 of additional revenue for the specific purpose of funding a Commodity Transition Program. This idea was particularly appealing because the revenue would not be generated from all taxpayers; only those who consume tobacco products.

We also felt the need for this revenue, which would take a tremendous burden off the tobacco farmer because of the interest and production costs and the financial farm crisis facing the tobacco farmer of these United States. The value of the U.S. dollar has also played a role in this part.

We, as farmers, feel that we were discriminated upon and treated unfairly when the No Net Cost Act of 1982 was introduced and passed for us to pay an assessment to support our program when the tobacco program is the only self-supporting farm program, and generated over $4.65 billion in taxes on 30 billion packs of cigarettes sold in the United States in 1983, with an increase in 1984.

When tobacco companies are buying industry after industry with the profit from cigarette sales, the American tobacco farmer or family farmer is being lost at a high percentage rate every day to large corporations because of his small profit having faded away to expenses and high inflation rates.

We, as tobacco farmers, support this bill, H.R. 2600, to the fullest and also would like to see this tax used to reimburse the farmers for the assessment that he has paid to the no net cost program. We have invested up into the thousands of dollars that we could have used to make farm payments, equipment payments, and so forth.

We support this bill over all buy outs by the companies. We feel that the buy out would play a big role in our quota system in the future. In this bill, the taxes will be determined by the amount of tobacco, that is in Stabilization, and set each year by the Secretary of Treasury in December and with a normal buy out that is already being done by the domestic company.

We also understand that the Dairy and Tobacco Adjustment Act of 1983, Report No. 98-556, readily gives some solution to the surplus tobacco problem. The Senate amendment expresses the sense of Congress that the Secretary of Agriculture should barter to the maximum extent practical under existing provisions of laws, commodities owned by the Commodity Credit Corporation for materials, goods and equipment in foreign countries. We feel that the barter system should take some priority with any proposal that has been submitted thus far.

During our study on this bill, I met with a couple of commissioners down in my county, and expressing the bill to them, and we called a little emergency meeting with the county commissioners, and adopted a resolution, unanimously supporting H.R. 2600. I would like to read this resolution:

> The Robeson County board of county commissioners realize the importance of tobacco as a crop to the farmers of Robeson County and other areas of the country; and
>
> Whereas, the Tobacco Equalization Act of 1985 as proposed in the 1st session of the 99th Congress under H.R. 2600 would greatly benefit financially troubled farmers; and
>
> Whereas, agriculture as well as some other segments of the economy have had their own private recessions, while the economy as a whole has seemingly prospered; and
>
> Whereas, the Robeson County board of commissioners desire to support the passage of the Tobacco Equalization Act of 1985;
>
> Now, therefore, be it resolved that board of commissioners of Robeson County hereby endorse and urge the passage by Congress of the Tobacco Equalization Act of 1985.
>
> Entered this 12th day of July 1985. Robeson County Board of Commissioners, Chairman signator, Sammy Cox.

I would like to give you the original copy.

Mr. Rose. Thank you, sir.

We will now hear from Mr. Crump.

Mr. Crump, you are from Cheraw, SC, and you may proceed, sir.

STATEMENT OF ERNEST JONES, WILLIAMSBURG CHAPTER, UNITED FARMERS ORGANIZATION, PRESENTED BY LEON CRUMP, CHERAW, SC

Mr. CRUMP. My name is Leon Crump, and I am here in place of Mr. Ernest Jones, who took sick yesterday morning, who lives in Kingstree; who has been farming tobacco all his life.

I know you all know tobacco is the No. 1 crop in South Carolina, making up 19 percent of the State's cash receipts. The 10 top tobacco producing counties are: Horry, Florence, Williamsburg, Marion, Dillon, Darlington, Clarendon, Sumter, Lee, and Marlboro. In 1975 there were 90,000 acres of tobacco being grown in South Carolina. In 10 years it dropped almost half, to 44,000 in 1985.

In 1953, 60 percent of the U.S. Flue-cured tobacco was in American-made cigarettes. By 1983 it had dropped to 35 percent; 65 percent of the tobacco used in cigarettes comes from foreign countries, wouldn't it be better for this amount, 65 percent, to be bought from the American farmer?

In addition to this problem, we are faced with rising production cost and uncertain weather conditions. Fertilizer costs $200 per ton. It costs 25 cents to sell the tobacco and 25 cents to lease it. It could even cost more than that if you are foolish enough to pay it. It cost $350 to harvest it and put it in the barn and $200 for curing. All this is not counting the farmer's labor.

Traditionally, tobacco has been the backbone crop for farmers. It was the only crop that enabled farmers to pay some money on their debt. In our area, it was called "the backbone crop."

The chemicals for tobacco, MH30 for suckers, cost $5.75 per gallon which only covers an acre and a half. Poison for worms cost $30 a gallon.

It does not seem fair for the farmer to have so much expense and only be able to take what he is offered for his crop, especially when the cost of production continues to rise. On Monday, we were hit with a hail storm that took 3 and 4 leaves from our plants. That cut down our yield. One farmer was treated at the hospital for high blood pressure because of this.

We feel realistically a tobacco farmer needs to receive $2.50 per pound to make a profit. Farmers were able to grow tobacco on a small acreage and support their families. We are no longer able to do this. That is why we are here today.

The United Farmers Organization, representing approximately 2,500 farmers in North and South Carolina urges you to support Congressman Charlie Rose's tobacco bill, H.R. 2600.

In January, we wrote and urged you to promote a tobacco program that would be healthy for family-size tobacco farmers. We asked you to eliminate assessment charges for farmers because that cost pushes us over the edge into the red. We asked you to require the tobacco companies to carry some of the cost burdens and to invest in the U.S. tobacco crop.

Congressman Rose's bill does both of these things. It has the companies assuming the cost of the No Net Program by paying 2 cents excise tax. This tax would go up or down depending on how much tobacco is in storage, thus providing an incentive for the companies to buy American.

The alternative proposal is to have the companies purchase the tobacco in Stabilization storage at a reduced rate and, in exchange the farmer takes further price support cuts. This will not work for the family farmers. It will only give the companies a large supply of cheap tobacco and give us no guarantee that our future crops will be purchased.

We urge you to support a program which will enable us to operate at a profit, keep our families on the land and continue to contribute to the local economies of both States. We ask you, will you support H.R. 2600?

We must remember, like II Timothy 2:6, "It is hard working farmers who ought to have the first share of the crops."

For Family Farms, Ernest Jones, United Farmers Organization, Williamsburg Chapter.

Thank you.

Mr. ROSE. Thank you. Excellent statement.

Mr. RANGEL. Very moving testimony, Mr. Crump.

Mr. ROSE. Do you farm, Mr. Crump?

Mr. CRUMP. My brother and I do, vegetables and hogs.

Mr. ROSE. Mr. Freeman, and Mr. Crump, tell Mr. Ernest Jones we appreciate his testimony. We thank you all for being here.

Mr. Jones.

Mr. JONES of North Carolina. Did your organization take a position that in the event Mr. Rose's bill would not be included in the pre-16-cent tax, but would be included in the additional 2-cent tax?

Mr. FREEMAN. We discussed that in our meetings. We realize that had the 8-cent tax, supposed to come off the 1st of October—we had the feeling that it was the possibility that it might stay on. We are supporting his bill of 2 cents, if it is possible.

Mr. JONES of North Carolina. In other words, the 2 cents, even if it is an additional 2 cents?

Mr. FREEMAN. Yes, sir. We are supporting it all the way.

Mr. ROSE. Gentlemen, thank you very much.

We will recess now to go vote and we will come back to hear Mr. Matthew Myers, and the Coalition on Smoking and Health.

[Recess taken.]

Mr. ROSE. The subcommittees will please come to order.

I wanted to thank the witnesses and our guests for their patience today. We apologize for the disruption that occurs every time we have a vote, but that is the nature of our work here.

That is why we chose this committee room here, rather than in another building. Unfortunately, this room is just too small.

At this time we are very happy to have representing the Coalition on Smoking OR Health, Mr. Matthew Myers, staff director of the coalition. I think it goes without saying that Mr. Myers and his coalition have a little different view about the tobacco industry than most of us who work with tobacco growers do; but every now and then we find ourselves sharing opinions, and we look forward to what Mr. Myers has to say to us today.

STATEMENT OF MATTHEW L. MYERS, STAFF DIRECTOR, COALITION ON SMOKING OR HEALTH

Mr. MYERS. Thank you, Mr. Chairman, Mr. Cooper.

BEST COPY AVAILABLE

Mr. Chairman and members of both subcommittees, my name is Matthew L. Myers. I am the staff director of the Coalition on Smoking OR Health, an organization formed by the American Lung Association, the American Cancer Society, and the American Heart Association and backed by many of this Nation's leading private health, education and youth leadership organizations.

The coalition was created to bring to the attention of legislators and other governmental officials smoking prevention and education issues. On behalf of the Coalition on Smoking OR Health and its member organizations, I want to thank you for the opportunity to express our views about the merits of H.R. 2600.

From its inception, the coalition has expressed its strong opposition to the inconsistency of the Federal Government's policies which, on the one hand, acknowledge that cigarette smoking is the single most preventable cause of death in the United States but, on the other hand, provide Federal assistance and tax dollars to support the growth of tobacco. Therefore, the coalition has endorsed the goal of legislation designed to eliminate the expenditure of Federal funds to support the growth of tobacco, a position to which we remain committed today.

From the viewpoint of the health community, it is the expenditure of general taxpayer dollars to support the growth of a crop which has been condemned by every Surgeon General since 1964 as a major health hazard which has made the Tobacco Price Support Program so politically controversial and so vulnerable.

The Tobacco Price Support Program must be looked at in the context of the health hazards of cigarette smoking. Last year, over 350,000 people in the United States died from smoking-related diseases. Every day approximately 1,000 Americans die as the direct result of their smoking addiction.

Cigarette smoking is by far the major cause of lung cancer, a major cause of cancer of the larynx, oral cavity and esophagus, and a significant contributory factor for the development of cancers of the bladder, pancreas, and kidney. Smoking is a major cause of and one of the three most important risk factors for coronary heart disease. No other risk factor is more important.

Smoking is also the major cause of both emphysema and chronic bronchitis and smoking during pregnancy increases the risk of both prenatal death and spontaneous abortion. More recently, scientific evidence has demonstrated that smoking is more than a bad habit, it is an addiction and drug dependence more widespread and more harmful than all of the illegal drugs about which so much concern has been expressed.

The coalition has consistently opposed legislative efforts to continue the expenditure of Federal taxpayer dollars to promote the growth of tobacco. Nonetheless, the coalition has also expressed its concern about the economic welfare of the tobacco farmer and the need for Congress and the public to carefully consider the welfare of the tobacco farmer as it debates how best to address both the agricultural-issues posed by the growth of tobacco and the health-related issues posed by the known harmful effects of cigarette smoking.

The tobacco farmer is not the enemy of the health community. The enemies of the health community are cigarettes and their harmful effect. In the long term, decreased consumption of cigarettes through increased educational awareness on the part of the American public about the health hazards of smoking will lead to the need for substantially less tobacco in this country.

However, for the last 5 years and for the foreseeable future, the major enemy of the tobacco farmer is the major multinational cigarette manufacturers who have elected to inflate their profits by their increasing use of foreign-grown tobacco, much of which is raised without the pesticide and other health restrictions imposed on the American tobacco farmer.

The problems now facing the American tobacco farmer are a direct result of the decision of these manufacturers to import an ever-increasing amount of foreign-grown tobacco rather than the decreases in consumption which have occurred as a result of the health community's educational efforts.

The reality is that cigarette consumption in this country could drop by an additional 30 percent without harming tobacco growers if the major cigarette manufacturers purchased their tobacco in the United States rather than abroad.

With the amendments which I shall discuss shortly, H.R. 2600 represents the first creative, innovative approach to resolving the concerns expressed by the health community in a manner which helps tobacco farmers and provides them with some protection against the unfair increased reliance by the major cigarette manufacturers on foreign-grown tobacco.

As drafted, H.R. 2600 will transfer the financial responsibility for the Tobacco Price Support Program from the tobacco growers to the tobacco users by imposing this small user fee on those consumers who smoke. While it is inappropriate to fund the Tobacco Price Support Program through general revenues, we find nothing objectionable about requiring those who use tobacco products to fund the Tobacco Price Support Program through the proposed user fee as long as it is clear that no other Federal revenues will be used to support the cost of the Tobacco Price Support Program, and as long as it is clear that the funds used for this purpose do not otherwise detract from the efforts of the Federal Government to use the cigarette excise tax to reduce the staggering budget deficits or meet the other health-related needs currently facing our Nation.

We are pleased to see this effort to balance the interests of the health community and the tobacco farmer. However, certain amendments to this legislation are necessary to ensure that it provides maximum benefit to the tobacco farmer in a manner that is consistent with the overall health goals of the Federal Government.

First, this legislation repeals two critical provisions of the No Net Cost Tobacco Act of 1982. As you are well aware, in enacting that legislation, Congress stated that it was its intent that the Tobacco Price Support Program should be carried out in such a manner as to result in no net cost to the taxpayer other than certain enumerated expenses. It is essential that this legislation include as its goal a similar statement that the Tobacco Price Support Program as amended should operate at no net cost to the nonsmoking taxpayer or the General Treasury.

Second, by creating an alternate funding mechanism, this legislation provides the opportunity to insulate the Tobacco Price Support Program against the political controversy and vulnerability to which it has been subjected in recent years. In order to carry out that goal, the legislation should be amended to fully fund all aspects of the Tobacco Price Support Program from the proposed Tobacco Equalization Trust Fund.

Obviously, this should include all expenditures currently paid out of the No Net Cost Tobacco Fund, including these expenditures for loans intended to cover overhead costs of the producer-owned cooperative marketing associations which enter into loan agreements with the Commodity Credit Corporation to make price support available to producers. It also should cover all interest-related costs incurred by the Federal Government as well as all administrative costs incurred by the Federal Government in operating the program.

Both types of costs were cited by the Comptroller General of the United States in his April 1982 report to Congress on the tobacco program, and both have been the subject of substantial criticism in recent years. Unless these remaining costs currently being incurred by the taxpayer are included in the Tobacco Equalization Trust Fund, H.R. 2600 does not eliminate the concern of many Members of Congress and the health community about the continued expenditure of general revenue funds to support the growth of tobacco.

Third, H.R. 2600 only applies to losses sustained after December 31, 1985. The legislation should be amended to apply to all losses sustained after the date of enactment and all losses incurred subsequent to the enactment of the No Net Cost Tobacco Act of 1982 for which an adequate amount of funds have not been collected from producer assessments.

This amendment is necessary to avoid the risk that substantial additional losses will be incurred as a result of decisions by the Department of Agriculture to permit cigarette manufacturers to purchase tobacco already in storage at prices discounted substantially below the loan support price. Current estimates of these potential losses during this calendar year alone exceed $100 million and may be substantially higher. This loophole must be closed.

Fourth, H.R. 2600 provides that the Tobacco Equalization Trust Fund shall reimburse the Commodity Credit Corporation for the amount of "net realized losses." The No Net Cost Tobacco Act of 1982 provided for both realized losses and losses likely to be incurred in the coming year. To the extent possible, the Tobacco Equalization Trust Fund also should be funded to cover the costs of expected losses so that the Treasury need not borrow those funds while it waits to be reimbursed by next year's tax.

Finally, over the past decade the number of tobacco farmers and the size of the overall tobacco quota under the tobacco price support system have decreased markedly. Many tobacco farmers have been squeezed out of business by the impact of the flood of imported tobacco. At the same time, there has been increasing concern about the health hazards of smoking. The health community would like to provide as many tobacco farmers as possible who wish to do so with the opportunity to switch to growing alternative crops.

The Tobacco Equalization Trust Fund created by H.R. 2600 provides an opportunity to create a fund which could be made available to tobacco farmers who for business or other purposes elect voluntarily to stop growing tobacco and to begin growing other crops on their land.

We urge that this bill be amended to provide that one of the users of the Tobacco Equalization Trust Fund be to assist those tobacco farmers to make the transition to other crops by either providing them with direct grants or interest free loans to cover their losses in income during the transition period and their possible need to purchase different farm equipment. I want to stress that under this proposal no farmer would be required to stop growing tobacco, but those who elect to do so would be provided with Federal assistance for a specified period of time.

In conclusion, for several years the Coalition on Smoking OR Health has been saying that the issue, as we see it, is not whether Federal funding for the Tobacco Price Support Program should be ended, but how best can this task be accomplished fairly without unduly harming the economic welfare of the tobacco farmer and without unduly burdening the American taxpayer.

The user fee proposed by this legislation represents an option which merits serious consideration and which represents the first innovative approach to this problem proposed by representatives of tobacco farmers. Unlike S. 1418, recently introduced in the U.S. Senate, H.R. 2600 will not impose an additional burden on the nonsmoking American taxpayer and is designed primarily to benefit the tobacco farmer rather than the cigarette manufacturer.

If the proposed amendments that we have suggested today are adopted, the Coalition on Smoking OR Health believes that H.R. 2600 may have the unique capability of eliminating the health community's concern about the expenditure of general Federal revenues to support the growth of tobacco, while providing tobacco farmers with a system for funding the Tobacco Price Support Program both that takes into account their current needs and provides them with the opportunity to make an orderly transition to the growth of products which can help to clothe and feed consumers, not kill them.

We look forward to working with you to ensure that the concerns and opportunities posed by this legislation are fully and fairly considered.

We will be happy to answer any questions that you may have.

Mr. ROSE. Matthew Myers, I appreciate that statement very much, and I think the record should show that I certainly feel that you are a very perceptive leader of the coalition when you perceive that as now the interest of cigarette manufacturers and tobacco growers are not always the same, and that the grower is in a problem condition, and is in need of help, and that the enemy of those who oppose smoking is not the tobacco grower.

I think you have given us a real blueprint of political reality here, and I am just very proud of what you said. I think we can work together to achieve the goals that you have expressed in some of the things that you would like to see done.

Joe Califano, when he was Secretary of Health, Education, and Welfare, understood that whether or not you have a tobacco price support program does not affect whether somebody smokes or not, and that cigarettes are going to be manufactured in this country as long as they are legal for the companies to make them, and that our program as we have constructed it, keeps that production hopefully in the hands of American growers, and I just thank you and all the members of your organization for moving this close toward an understanding of just what we face.

Mr. **Rangel.** I just wanted to join you in thanking Mr. Myers for his leadership and especially for his testimony. As a matter of fact, before you testified I wished I had read your testimony and shared with Chairman Rose the fact that I appreciate getting this type of testimony.

You mentioned Joe Califano. I do not think it would serve any useful purpose for me to point out that after smoking for 35 years, today I am a reformed smoker. I stopped last year. I oppose excise taxes because it normally hits hardest those in our society who can least afford to pay them. I have always had a commitment to the small farmer who is trying to make a living like everybody else; whatever that crop may be. While serving on the Subcommittee on Health of the Committee on Ways and Means, I had a look at what we can do to educate and prevent harmful disease.

It seems to me that your coalition has a sensitivity to all of those issues, and for all of those reasons, I am glad that you gave this testimony.

Mr. **Myers.** Thank you, Mr. Chairman.

Mr. **Rose.** Mr. Hopkins.

Mr. **Hopkins.** Mr. Chairman, let me say I have a couple of questions for Mr. Myers in a moment. I very frankly am not quite as anxious to embrace you and give you the secret handshake of our organization, those of us who have supported tobacco over the years.

This is a new thrust by you and your organization, which I must question, frankly. Before I get to that, let me say to Chairman Rangel that as a member of this subcommittee, I appreciate, Charlie, your patience for a long, long time, and your very helpful, cooperation with those of us who support the tobacco farmer. I appreciate your subcommittee joining Chairman Rose today, and looking at his legislation.

We find ourselves basically in this dilemma. There are three options currently available. One would be to do nothing. To do nothing, in my opinion, is the worst of the three options. In the case of burley tobacco, there are those who feel that to do nothing would lead to a 50-cent assessment next year. That would be, in my opinion, disaster for the tobacco farmer; and would cause the downfall of the program that has been going on for some 50 years; so clearly that is not an option.

The second option, of course, is the chairman's bill, and the third option the plan from the Senate. Several months ago we started weaving the fabric to try to sustain this program, and I asked the Kentucky Farm Bureau, the Burley Farmers Advisory Council, and the Burley Tobacco Growers Cooperative Association of my home State in Kentucky, to help come up with a plan that they felt would sustain the tobacco program over a long period of time.

They have opted to support, and have helped to craft, if you will, the Senate proposal, which I currently support. I want to be very careful today, not to be critical of my friend's bill, Charlie Rose, because ultimately I may support that bill or a combination of that bill, in an effort to keep from getting to option one, and that is of doing nothing.

The Senate bill is not without flaw; nor is this bill. It is not perfect. I do not think that Mr. Rose is telling us that this is going to be the 11th Commandment, if you will; and I would like to be helpful to put something together that will sustain the tobacco program, but I must say that today I find myself somewhat puzzled and concerned about the appearance of this witness in support of the proposal by my friend, Mr. Rose.

My experience over the last 7 years, has been that this group has tried to kill the tobacco program. Their aim has been clear; and you do not have to look farther than their logo, frankly, to see that they want to deny Americans the choice of whether to smoke or not.

And if they are successful, of course, they would put our tobacco farmers out of business. On January 10 of this year, this organization proposed that a 32 cent tax be levied on every pack of cigarettes. Obviously, their motive then was to tax our tobacco farmers out of business.

June 20, Mr. Chairman, before the Ways and Means Committee, this organization said on page 5 of its testimony, "I have estimated that a reimbursement for all these costs would require an increase in the cigarette tax to $3 a pack."

Mr. Myers, let me ask you, as a witness of the coalition, does the coalition continue to support a 32 cent excise tax, and whether they are supporting this bill because they feel it is the best way to accomplish their goal of killing the tobacco program?

Mr. MYERS. The answers to your questions and your comments, let me address each of them for you. I would be happy to.

One, yes. The coalition does support a 32 cent excise tax. You have correctly represented our view, because we believe it is an extraordinarily good way, both to deal with the Federal deficit, help address some of the health care costs attributable to smoking, and to discourage some of our Nation's youngest people who are not yet addicted from taking up the habit.

Two, no. The 32 cent tax position and our position on this bill is unrelated. From this point of view this bill, taken by itself with the constraints that I discussed, represents the first reasonable alternative we have heard to help assist tobacco farmers, and help address some of the many problems which you have historically raised about the tobacco price support program.

Three, our views today are not inconsistent with our views in the past. What is different is the nature of the proposal before us today, and we think that that is important. We have said before that we were concerned about the welfare of the tobacco farmer. We never previously thought that we had a proposal before us that both addressed those concerns and dealt with some of our major concerns.

We think this is headed in the right direction.

Four, it is not our goal to deny anyone the right of freedom of choice to use tobacco. It is our goal to help educate the American public in such a way so that people will voluntarily, on their own, recognizing the health risks of smoking, choose not to do that.

At the same time, we hope that certain taxing policies and other policies of this Government, help young people, who are most susceptible of advertising and other inducements to smoke, to make what we think is a rational, long-term health choice; and even a good economic choice in that the data shows that the increased tax will not result in them not smoking fewer cigarettes, but not smoking, and paying the tax.

Mr. HOPKINS. Has your organization changed its position, Mr. Myers? Do you now favor continuing some Federal support program for tobacco?

Mr. MYERS. What we said earlier, and which we think is consistent to our ongoing program, we are opposed to support prices for tobacco. As we have said before. We do not find objectionable to what we term to be a user fee, of those people who use the particular product to support the program in some facet, as we have laid out in our testimony.

Mr. HOPKINS. You do not see this user fee to be coming from general funds?

Mr. MYERS. As we said today, as long as these funds do not detract from the efforts to reduce the Federal deficit to an offset health care cost, then a 2-cent tax that is imposed specifically to fund the program, is not otherwise objectionable. It is not taking away from General Treasury funds; it is not making nonsmokers pay for a crop which they do not use.

Mr. HOPKINS. So your organization's position is that the farmers can grow as much tobacco as they want to; they just cannot smoke it. Is that it?

Mr. MYERS. I said to you, our position is that we would not prohibit anybody from smoking. Our position is that tobacco is this country's No. 1 health problem, and we would hope through education, people becoming informed voluntarily choose not to smoke, and it is our position today, that as long as people do smoke, as long as cigarettes are going to be a product that are to be used in this country, we would rather see the tobacco in those cigarettes be grown in America, where we have pesticide provisions that would further enhance their safety and other things.

Mr. HOPKINS. I have to be very candid with you, and tell you in my view, I am suspicious of your motives, based on the historical past.

Will you support this bill if it reaches the floor of the House of Representatives?

Mr. MYERS. As I indicated in my testimony, subject to the concerns and provisos we have raised in our testimony, if it reaches the House of Representatives, we will not object to this bill.

Mr. ROSE. Thank you.

Mr. Hopkins, I didn't expect you to be real excited about his testimony. [Laughter.]

I want to tell you I anticipated your reaction, because I did not think that Mr. Myers support and his organization's support would bring me any votes from people like you, you understand. I know where you are coming from, and I appreciate that.

Mr. **Myers**. May I also make an offer? I would like to have the opportunity, in working with you, to address that skepticism. I believe if you work with our organizations you will find that they are organizations who are good to their word, and honorable people. And we would welcome that opportunity.

Mr. **Hopkins**. Our side speaks in favor of that, and I am sure I speak for the chairman on that.

Mr. **Rose**. I found them to do what they said they would do, and they represent honorable, well-meaning individuals and organizations. But this kind of a statement helps this legislative approach with a group of people in the House of Representatives that you and I have not been communicating with about the tobacco program. I share your concern about a 32-cent cigarette tax. I am not going to support it; you are not going to.

I want people to have the free right to smoke, and his organization, I think, has the right to warn the American people about whatever they think the facts may be. This is a strange alliance that we are talking about, working out here today.

Mr. **Rangel**. Mr. Chairman, I hope you do not make it too strenuous. [Laughter.]

Because of the fact that I have learned the hard way about the dangers of smoking, in no way has it taken away any commitment from the small farmer, many of whom are in my family in Virginia. And so we can say that if you are going to smoke, my God, do not go to the Arabs, go to the man in Virginia, Kentucky, or Tennessee; but think about it before you do it.

Now, I have a problem with my kids with it. And, like Mr. Myers said, if he has to go for something, I would rather get hold of a farmer and ask him for that stuff, rather than going overseas. I thought, notwithstanding the conflict and objectives as it relates to this issue, there is a compatibility, and I have no problem defending myself with the heart specialist, or your organization in the Committee on Ways and Means, in saying that a vital part of our economy is based on how the farmers are doing. I am not prepared to separate the tobacco farmers from the other type of farmers. We have to raise some money. If the smokers pay for it, you can call it user fees, you can call it taxes, but we are going to raise some money.

You people have to come up with the policy that the Ways and Means Committee would be most compatible with.

Mr. **Rose**. Thank you, Mr. Chairman.

Thank you very much.

Mr. **Myers**. Thank you, Mr. Chairman.

Mr. **Rose**. The next witnesses are a panel of two professors from North Carolina State University. First is Dr. William Douglas Toussaint, extension economist, North Carolina State University.

The next witness, accompanying him, is Prof. Randy Rucker, from the Department of Economics of North Carolina State University, Raleigh, NC. Professor Rucker is testifying in behalf of the Tobacco Institute.

Mr. Jones.

Mr. **Jones** of North Carolina. Mr. Chairman, I would like the record to show that I am the only North Carolina State graduate in the U.S. Congress.

STATEMENT OF WILLIAM DOUGLAS TOUSSAINT, PROFESSOR, ECONOMICS AND BUSINESS, NORTH CAROLINA STATE UNIVERSITY

Mr. **Toussaint**. My comments are restricted to the potential effects of H.R. 2600, the Tobacco Equalization Act of 1985. I would like to discuss the income accruing as a result of this bill and the potential effects on disappearance, or consumption of Flue-cured and burley tobaccos produced in the United States.

To examine these effects, let us take an example. A 2-cent-per-pack tax on cigarettes at the present level of consumption would yield about $550 million per year. At the 1984 rates of disappearance of Flue-cured and burley tobaccos—910 and 540 million pounds, respectively—this is equivalent to the amount that would be generated by an assessment of about 38 cents per pound on both Flue-cured and burley producers. Once the present problems with storage stocks are resolved, an annual amount of money equivalent to about 5 cents per pound; just over one-fourth of a cent per pack, should be adequate.

The amount of money produced by a 2-cent-per-pack tax should be adequate to cover potential losses in the no net cost fund if the tax is kept at that level for 1 to perhaps 3 years. The exact time that the level of assessment would be needed is impossible to predict, because it depends on other changes in the program and the degree to which quota is kept low enough for existing stocks to be reduced to manageable levels.

The second issue relates to expected effects of the 2-cent tax on consumption of cigarettes and, thus, on domestic consumption of burley and Flue-cured tobacco produced in this country.

Wholesale filter tip cigarette prices increased from $20.20 per 1,000 in September 1981 to 30.15 per 1,000 in June 1984. There were four announced wholesale price increases in 1982, the year prior to imposition of the second 8 cents per pack, or $4 per 1,000 tax increase as of January 1983. Thus, I have looked at two recent periods to estimate the effects of the tax.

In the 6-year period of 1975 to 1981, cigarette consumption per person 18 years old or over decreased by 283 cigarettes or by 47 cigarettes per year. Real or deflated cigarette prices fell during this period, so it would seem to be conservative to estimate that the 47 cigarettes per year decrease was due largely to smoking and health issues.

From September 1981 to June 1984, the real wholesale price—deflated by the Consumer Price Index—increased $2.40 per 1,000, or 33 percent. The real wholesale price, excluding Federal tax, increased $1.20 per 1,000, or by 20 percent. Thus, the increase in the real price was one-half tax and one-half increase in wholesale price excluding tax.

Per capita consumption during the 3-year period from 1981 to 1984 decreased by 386, 129 per year, cigarettes. If we assume and adjust for a continuation of the previous trend decrease of 47 cigarettes per year, consumption decreased 246 cigarettes per person because of real price changes during this period.

Probably oversimplifying the issue a bit, this implies that a 33-percent increase in real price was accompanied by a 6.4-percent decrease in per capita consumption. This suggests that a 1 percent change in real price would be expected to decrease domestic consumption by about two-tenths of 1 percent.

What does this imply for future effects of a 2-cent tax? A 2-cent tax is about 3 percent of the present wholesale price of cigarettes. That increase alone would be expected to decrease domestic consumption of burley and Flue-cured tobaccos by about 0.6 percent, or by about 5 million pounds annually—0.6 percent of 800 million pounds annual domestic use. But, wholesale and retail prices in the last 3 years have gone up more than the amount of the tax increase. As noted earlier, the real wholesale price rose twice as much as the real tax increase from 1981 to 1984.

Thus, wholesale prices might be expected to increase by up to 6 percent with a tax increase of 2 cents. This large a change would imply a decrease in consumption of about 10 million pounds. Thus, my estimate is that domestic consumption would be expected to drop by from 5 to 10 million pounds or by between 0.4 and 0.8 percent of the 1984 disappearance of burley and Flue-cured together.

Growers would find their gross incomes from tobacco reduced by between $10 and $20 million as a result of the 2-cent increase. Their net incomes, of course, would be decreased much less than this.

[The attachments follow:]

TABLE 1. Wholesale Filter Tip Cigarette Prices*

DATE	Net price	Net price excl. Fed. Tax
	(dollars/1000)	
September 1981	20.20	16.20
February 1982	21.20	17.20
August/September 1982	22.70	18.70
October 1982	24.20	20.20
November 1982	25.20	21.20
January 1983	26.90	18.90
June 1983	28.40	20.40
December 1983	29.15	21.15
June 1984	30.15	22.15
December 1984	31.15	23.15

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*Source: Tobacco Outlook and Situation Report, USDA, March 1985, p.7.

TABLE 2. Wholesale Prices Deflated by Consumer Price Index

DATE	CPI	Price Actual	 Deflated	Price exc. tax Actual	 Deflated
			(dollars/1000)		
September 1981	276	20.20	7.30	16.20	5.90
June 1984	311	30.15	9.70	22.15	7.10
Change		+9.95	+2.40	+5.95	+1.20
% Change		-----	+33%	-----	+20%

TABLE 3. Per Capita (18 years and over) consumption of cigarettes**

Year	Number	
1975	4,123	
1976	4,092	6 years: a decrease
1977	4,051	of 283 (47/yr.)
1978	3,967	
1979	3,861	
1980	3,851	
1981	3,840	
1982	3,746	3 yrs.: a decrease
1983	3,494	of 386 (129/yr.)
1984	3,454	

**Source: Tobacco Outlook and Situation Report, USDA, March 1985, p.6

Mr. Rose. Professor Rucker.

STATEMENT OF RANDY RUCKER, ASSISTANT PROFESSOR, DEPARTMENT OF ECONOMICS AND BUSINESS, NORTH CAROLINA STATE UNIVERSITY

Mr. Rucker. Mr. Chairman, members of the subcommittees. I am an assistant professor in the department of economics and business at North Carolina State University.

Before presenting my testimony, I would like to make two brief statements. First, the remarks that follow represent my views and are not to be construed as to represent the position of the department of economics at N.C. State.

Second, to this point in my career, I have not specifically conducted academic research on the tobacco program. I will therefore limit my comments on the proposed legislation to the general issue of the effects of earmarking as specified in H.R. 2600.

Mr. Rose. Could we ask that you summarize your statement. We put you down the way we did, because when you talked to my staff, you indicated that you were testifying at the request of the Tobacco Institute.

Mr. Rucker. That is correct.

Mr. Rangel. Well, Professor, who would your testimony represent? It does not represent——

Mr. Rucker. It represents my own. It may be consistent with the views of the Tobacco Institute, but it is certainly my own testimony. That is the point I am trying to make.

Mr. Rangel. And it is disassociated from the North Carolina State University as well?

Mr. Rucker. That is correct.

For the most part, I will follow my written testimony, but in the interest of brevity, I will skip a few passages that are not essential to the points I am making.

We are assembled here today to consider a bill introduced by Mr. Rose, the Tobacco Equalization Act of 1985, that proposes to levy a new excise tax on cigarettes, and earmark the revenue so raised for the proposed Tobacco Equalization Trust Fund. Distributions from this fund are to be made by the Commodity Credit Corporation for the purpose of making up losses recently experienced by the tobacco program.

In my opinion, this legislation has serious problems. This view is based on the fact that although the pairing of taxes and expenditures is a useful instrument of public finance in certain cases, this is not so when the expenditure involves a program from which the taxpayers do not directly benefit. Permit me to discuss this point in more detail.

As a broad proposition, earmarking compares favorably with general fund financing as a method of public finance. (See, for example, James M. Buchanan, "Public Finance in Democratic Process," Chapel Hill: The University of North Carolina Press, 1967, pp. 72-74.) This is because a system of earmarked taxes is closely analogous to the set of choices individuals face in private goods markets. If the taxpayer can make separate fiscal choices for each Government program, which earmarking conceptually allows him to do, he or she is informed as to the alternatives available.

In short, earmarking allows individuals to vote simultaneously for a public spending program and the taxes designated to finance the outlay. If the public program is not viewed as worthwhile by the majority of taxpayers, they can choose not to authorize the expenditure and, at the same time, not to authorize the tax.

By contrast, with general fund financing, citizens are required to vote for a bundle of public programs, with the precise composition of the bundle determined by the legislature or other budgetary authority. The voter-taxpayer is essentially confronted with an all-or-nothing choice, and because the mix of public goods and services supplied is decided upon without explicitly considering the voter's personal preferences, he may end up paying for some programs he does not benefit from in order to get those he does. For example, under general fund financing, a childless taxpayer pays for local schools in order to obtain police and fire protection services for his neighborhood.

The advantages of earmarking over general fund financing are most evident in a case such as highway user fees where the link between tax payments and benefits received is clear. Levying an excise tax on gasoline and earmarking the receipts for the construction, repair, and maintenance of highways assures that the program is paid for by the individuals who benefit from the expenditure of public funds.

Those taxpayers who do now own automobiles and have no use for a system of public highways are not forced to bear its cost. Those who drive more and therefore benefit more from the program, pay more for highways. In such cases, the amount of taxes paid to finance a specific public program is consistent with individual preferences.

Earmarking does not have these advantages, however, when the tax revenues are designated for funding a program that the taxpayers would not voluntarily choose. In the case at hand, poundage quotas limit tobacco production, thereby making tobacco leaf more scarce and driving up its price. In this way, the tobacco program imposes costs on both the tobacco companies, who face higher wholesale leaf prices and cigarette consumers, who face higher prices at retail.

It is highly unlikely that producers and consumers of cigarettes would support the expenditure of tax dollars on such a program. Yet H.R. 2600 would require that the proposed tobacco equalization trust fund be financed by these groups.

Under this proposal, cigarette producers may limit their tax liabilities only by purchasing domestic tobacco instead of lower priced foreign tobacco, while consumers will pay higher prices for cigarettes but receive no compensating benefits in return. The welfare of both groups is reduced. H.R. 2600 clearly carries the earmarking principle to an illogical extreme.

Such a method of financing the tobacco program might be justified if the allocative effects of the tax serve some overriding goal that can be achieved in no other way and that provides benefits in excess of its costs. Not even the staunchest supporter of H.R. 2600 can believe this to be true. The purpose of the bill is undisguised.

Mr. Rose himself has indicated that H.R. 2600 has been made necessary because cigarette companies have been sharply increasing imports of foreign tobacco.

If the Congress wants to protect domestic tobacco growers against import competition, there are surely alternative ways of achieving this goal. Why appeal to misunderstanding by asserting that the tobacco companies must now be made to bear part of the cost of the tobacco program? These firms have been paying all along in the form of higher prices for domestic leaf. Why suggest that the funding proposal will operate without direct costs to the general taxpayers? There are 50 million cigarette smokers who will pay higher retail prices if the bill is enacted.

In short, if the U.S. tobacco program is in need of additional funds, a new tax gimmick is not the answer. Do not misunderstand me, I am not trying to make light of the plight of the American tobacco farmers. They are faced with economic conditions they cannot control, not to mention competition from overseas tobacco growers.

However, the policy proposed in H.R. 2600 fails to solve the underlying problem—the Government-created competitive disadvantage of domestic tobacco growers. All that is accomplished is a transfer of more of the tobacco program's costs to tobacco product consumers.

To conclude these remarks, let me reiterate my reservations concerning the proposed additional excise tax on cigarettes. In my opinion, our time here today would be more productively spent if we talked about reducing or eliminating existing taxes, not proposing new ones. The proposed variable cigarette excise tax seriously distorts some widely accepted principles of public finance, and represents a complex and confusing attempt to subsidize the domestic tobacco program. It seems apparent that whatever revenues the proposed tax may raise will come at high social cost.

Thank you for the opportunity to appear here today.

Mr. RANGEL. Mr. Chairman, may I ask Dr. Toussaint just two questions, relating to the decrease in consumption.

If the tax writing committee decides to keep the 16 cents cigarette tax, notwithstanding the fact that 2 cents is allocated to the tobacco programs, that would not have any effect at all on the decrease of consumption based upon your research, would it?

Mr. TOUSSAINT. That is correct.

Mr. RANGEL. In addition to that, if indeed the tax writing committee allowed the 16 cents to sunset, and the tobacco industry decided to increase the price by 16 cents, we would reach the same impact; that it would have no impact in the future?

Mr. TOUSSAINT. That is correct.

Mr. RANGEL. Mr. Rucker, I suppose you did not reach any conclusion of what we could do to assist this industry that is really facing some hard times?

Mr. RUCKER. No, sir. We did not.

Mr. RANGEL. Thank you.

Mr. ROSE. Thank you gentlemen, very much.

[Recess taken.]

Mr. ROSE. If we can resume our hearings, we will conclude as quickly as we can. We are happy to have with us Dr. Roy Schwarz, American Medical Association, vice-president, Medical and Science Affairs, Chicago, IL.

You may proceed, sir.

STATEMENT OF M. ROY SCHWARZ, M.D., VICE-PRESIDENT, MEDICAL EDUCATION AND SCIENTIFIC POLICY, AMERICAN MEDICAL ASSOCIATION, ACCOMPANIED BY BRUCE D. BLEHART, J.D., ASSISTANT DIRECTOR, DEPARTMENT OF FEDERAL LEGISLATION

Dr. SCHWARZ. Mr. Chairman and members of the subcommittees, my name is M. Roy Schwarz, M.D., and I am vice president of medical education and scientific policy at the American Medical Association. Accompanying me is Bruce D. Blehart, assistant director of AMA's Department of Federal Legislation. We appreciate this opportunity to testify regarding H.R. 2600, the Tobacco Equalization Act of 1985.

H.R. 2600 would repeal the current Tobacco Price Support Program which the tobacco growers and cooperatives agreed to fund. A new price support system would be implemented, funded by the Federal excise tax on cigarettes. The existing tobacco allotment system would not be affected by this bill.

The AMA has long warned of the health risks associated with smoking. Over 350,000 people die annually in the United States from smoking-related diseases. Smoking clearly is a major cause of numerous cancers, as well as being one of the three major risk factors of coronary heart disease.

Lung cancer will surpass breast cancer as the leading cause of cancer death among women this year, a trend that is linked to increased cigarette smoking among women that began in the 1930's. In light of this, we are concerned that governmental action to support tobacco prices presents mixed signals to the public. Even though the Government has required cigarette manufacturers to place health warnings on their packages, it still continues to promote the growing and marketing of tobacco with a price support system. We believe that the Government should resolve this inconsistency by removing itself from any involvement in tobacco growing and marketing.

The American Medical Association finds it unconscionable to use Federal resources for supporting tobacco growing while Federal health policy clearly recognizes the health hazards of smoking and while Federal health care programs and other areas in critical need are suffering budget cutbacks.

Even though a so-called No Net Cost Federal Tobacco Program has been in place for several years, the Senate sponsor of the companion legislation to H.R. 2600 has estimated that the Government now faces a loss of $400 to $500 million due to surplus tobacco warehoused while the no net cost program has been in effect.

At a time when every dollar spent by the Government is coming under careful scrutiny, a potential loss of money through diversion of revenue to support the No. 1 preventable public health danger is wholly inappropriate.

We strongly oppose Federal funds being used to bail out this program when under the current law, the tobacco cooperatives had assumed responsibility for such losses. We see no justification for Government providing this type of windfall.

Even though the Tobacco Equalization Act would raise this money through the current Federal excise tax on cigarettes, this would not be an appropriate use for funds that are currently utilized by other Government programs. Also, over one dozen bills already have been introduced in Congress to maintain the cigarette tax at the level of 16 cents per pack or to increase the tax and allocate the additional revenues to more deserving areas of Federal spending—such as the Medicare Program which provides essential health care services for the elderly and disabled of this Nation.

The AMA, other concerned organizations, and, indeed, a substantial majority of the American people have indicated support for such an increase in the cigarette excise tax. Certainly, the scheduled reduction from 16 cents to 8 cents should be repealed, at the very least.

We are not unmindful of the fact that many individuals obtain all or part of their livelihood from the production of tobacco—or from the leasing of tobacco allocation rights. And by the same token, there are many health care providers who derive their livelihood from the treatment of disease brought about by the use of tobacco products. Notwithstanding these facts, the Federal Government cannot justifiably continue its support for the single most preventable cause of death and morbidity in the United States simply for the sake of limited economic welfare.

Mr. Chairman, it is the goal of the AMA and others, including health representatives from the Federal Government, to see a smokeless society by the year 2000. It is our belief and hope that the incidence of tobacco usage in this country has peaked. Already, there is evidence of some decline in tobacco use among certain segments of the population, such as the college educated, physicians, and other health personnel. Agricultural legislation cannot and should not attempt to reverse this encouraging social trend away from the harmful use of tobacco.

Some may argue that eliminating Government supports and controls would result in greater production of tobacco, and would actually encourage smoking. The AMA, however, questions the belief that tobacco supply drives the demand for cigarettes and other tobacco products. If such were the case, there would be millions more smokers and there would not be over 1 billion pounds of surplus tobacco in this country.

Moreover, while some segments of the smoking population, such as young people and those not yet addicted, are price sensitive, even under the existing price support program cheap imported tobacco is available to cigarette manufacturers. The best insurance against any increased consumption, which may result from elimination of price supports, would be a sizable increase in the Federal excise tax to 32 cents a pack.

In conclusion, the AMA opposes H.R. 2600, the Tobacco Equalization Act of 1985. While we do have concern for the tobacco producer, our concern for the victims of smoking and tobacco use is overriding. As representatives of medicine, we will continue to do what we can to discourage the use of tobacco. For this reason, we encourage the investigation of alternative means of livelihood for tobacco farmers and elimination of any governmental price support program for tobacco.

Mr. Chairman, we have attached to our statement a list of actions taken by the AMA on the tobacco issue. I would be pleased to answer any questions the subcommittees may have.

[The attachments follow:]

July 1985

AMERICAN MEDICAL ASSOCIATION
Policy on
Tobacco and Health

For many years the American Medical Association has warned of the relationship between tobacco usage and the incidence of certain diseases. Because of the health hazard involved, the AMA has advocated action that discourages tobacco use. Significant AMA policies and actions are as follows:

- Declare unequivocal opposition to the use of tobacco products;
- Cooperate with public and private agencies to promote a "Smoke-Free Society by the Year 2000";
- Seek elimination of federal price supports for tobacco growing;
- Support legislation requiring rotating health warning labels for cigarette packages;
- Declare snuff and chewing tobacco a health hazard and seek legislation to require warning labels and an electronic media advertising ban for "smokeless tobacco";
- Support legislation requiring labeling of ingredients added to the tobacco in cigarettes;
- Join with other concerned groups in favor of an increase in the cigarette tax to 32¢ per pack;
- Call for legislation to ban any form of media advertising of tobacco products;
- Urge newspapers and magazines to refuse voluntarily to accept tobacco product advertisements;
- Protect the health of youth in the military by opposing the availability of low-cost cigarettes on military bases;

- American Medical Association -
Department of Federal Legislation, Division of Legislative Activities

- Seek legislation to prohibit smoking on any public transportation;
- Seek legislation to restrict smoking in public facilities (restaurants, public buildings, etc.);
- Support legislation for developing a "fire-safe" cigarette;
- Seek legislation to prohibit distribution of tobacco product samples by mail;
- Develop state and local model legislation to prohibit distribution of free cigarette samples on public property;
- Urge stricter rules to limit smoking aboard aircraft;
- Urge all hospitals, offices, and other medical care facilities to declare their premises off-limits to smoking;
- Prohibit smoking at all AMA meetings;
- Removed cigarette vending machines from AMA headquarters;
- Develop printed material and public service announcements on the hazards of smoking;
- Participate as a member of the National Interagency Council on Smoking and Health.

Mr. **Rose**. You say some rather amazing things in here, Doctor. On page 4 you say we encourage the investigation of alternative means of livelihoods for tobacco farmers and the elimination of any governmental price support programs for tobacco, and then on page 3 you say, we are not unmindful that many individuals obtain all or part of their livelihoods from the production of tobacco or from the leasing of tobacco allocation rights, and by the same token, there are many health care providers who derive their livelihood from the treatment of disease brought about by the tobacco products.

Are you putting those in the same category?

Dr. **Schwarz**. The tobacco growers, and the doctors who care for people——

Mr. **Rose**. If that is the case, you should be concerned about seeking alternative livelihoods for those health care professionals who derive money by treatment of disease brought about by tobacco products.

I find that an amazing statement for the AMA. I think that should be reconsidered, Doctor.

Are you saying that you are concerned about loss of income from people in the medical profession who make their living off of damage done by cigarettes? If it is, that is a new mark in AMA testimony before congressional committees, sir.

Dr. **Schwarz**. What I am suggesting is that if you eliminated the use of tobacco products by the American public, there would be people who have diseases now that would not have them if it were eliminated. This, in turn, would reduce, if you will, the business that is available for doctors who are in the business of taking care of sick people.

We recognize that, and we think that should occur.

Mr. **Rose**. Mr. Whitley.

Mr. **Whitley**. Thank you, Mr. Chairman.

Doctor, I understand the position of the AMA; that it wants to discourage smoking on the ground that it has arrived at the conclusion that cigarette smoking is hazardous to health, and assuming that a certain number of cigarettes are going to be manufactured, sold, and smoked in this country, for the foreseeable future.

If we assume that, is the AMA going to be happier if the tobacco that goes into those cigarettes is produced cheaply offshore and imported into this country than it is if tobacco farmers in North Carolina, South Carolina, Virginia, and Kentucky grow that tobacco?

Dr. **Schwarz**. I think if you ask the AMA members; if you are going to grow and use tobacco, you ought to use tobacco that is raised in the United States. It is my understanding that the tobacco coming in from the outside, whether it is from Yugoslavia, Turkey, Korea, or wherever it is, much of that tobacco has been treated with insecticides such as DDT, Paraquat, and others; over which we have no control, and which are outlawed, or illegal to use in this country.

For that public health reason, we would recommend that tobacco, if we are going to use it, be raised stateside where we can control those things.

Mr. WHITLEY. Do you recognize the fact, Doctor, that your fight is not with the tobacco program; your fight is with people who smoke cigarettes?

Dr. SCHWARZ. Exactly.

Mr. WHITLEY. Do you understand what the Federal Tobacco Program is? It controls production of tobacco. We keep production down. If there were no Federal price support production controls there would be more tobacco available and there would be more smoking, not less; so I do not understand why you are against the program.

Dr. SCHWARZ. It is my understanding that 200,000 metric tons of tobacco were brought in from outside the United States in 1983, and that those were brought in at significantly lower prices than the price support levels have been established for tobacco here.

I would guess, therefore, that if the tobacco production in this country were reduced that you would continue to have that flow in from the outside, as long as there is a demand in this country.

We, like the Coalition for Health, would like very much to see that through educational programs that people would choose voluntarily to stop smoking. Simultaneously, we would like very much to see the conversion of farms which raise tobacco at this point to produce other revenue-producing crops.

Yesterday I asked a Georgian tobacco farmer, I said, "Let's be candid with each other. Are there other crops that could be raised on that land that you own?" The answer was yes; soybeans, cotton.

Mr. WHITLEY. Doctor, let me stop you there. Every one of those crops is already in surplus in this country. We have got huge surpluses. You are talking about real subsidies when you start talking about grain and cotton and other things that can be grown on that land.

Really, you do not need to talk to us about agriculture. You are an authority on health. We are authority on agriculture. Is not it a fact that if Americans are going to smoke cigarettes, it just makes sense for Americans to grow that tobacco that goes into them, regardless of the health considerations?

Dr. SCHWARZ. I have already stated that.

Mr. WHITLEY. You have?

Dr. SCHWARZ. Sure.

Mr. WHITLEY. But you want to demolish the whole tobacco program, and put farmers to growing something other than that.

Dr. SCHWARZ. That would be my preference.

Mr. WHITLEY. If your position is significant, I cannot grasp it.

Dr. SCHWARZ. Your position is that people are going to continue to smoke.

Mr. WHITLEY. For the foreseeable future.

Dr. SCHWARZ. I am saying I would sooner use tobacco in the United States, not tobacco coming from abroad. Any overall goal is to educate people so they do not use it.

Mr. ROSE. I do not have any further questions.

Doctor, thank you. We will excuse you, unless you would like to sit there.

Our next witness is Hugh C. Kiger, Leaf Tobacco Exporters Association, and the Tobacco Association of the United States.

Mr. Kiger, go ahead, sir.

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION AND TOBACCO ASSOCIATION OF THE UNITED STATES

Mr. KIGER. Chairman Rose, Chairman Rangel, my name is Hugh C. Kiger, executive vice president of Leaf Tobacco Exporters Association and Tobacco Association of the United States.

Members of our associations purchase about 70 percent of U.S. tobacco crops and export most all of the U.S. tobacco moving to overseas markets. Our associations are keenly interested in any legislation which affects the tobacco program and international trade in tobacco.

The press release by the House Committee on Agriculture of May 23, announcing the introduction of H.R. 2600, stated: "This appears to be the best long-range solution to the problems—particularly the increasing imports which have been flooding into our cigarette industry—that currently face the tobacco program." The release further states that, "The legislation we are introducing has been made necessary by the escalating rate of imports by cigarette companies."

First of all, I think we need to face the fact that the increase in imports and the decline in exports is due to the fact that U.S. tobacco has been priced out of the world market. H.R. 2600 does nothing to resolve this basic economic problem.

There is a dire need for tobacco legislation which makes U.S. tobacco competitive and provides for disposal of surplus loan stocks in an orderly manner. Such legislation would remove the economic incentive to import tobacco. Our association has recommended such legislation for the past several years.

Comments in the press release refer to imports flooding into our cigarette industry. Actually, imports of Flue-cured peaked in 1983, as a result of large shipments in August 1983, because of a change in the duty rate on machine-threshed cigarette leaf, and has trended downward since.

If price supports, as proposed in S. 1418, become effective, U.S. imports can be expected to decline. I think it is important to point out that U.S. imports of Flue-cured tobacco total about 100 million pounds annually compared to U.S. exports of Flue-cured tobacco which total about 500 million pounds—five times the level of imports. Thus, U.S. net trade in Flue-cured tobacco is a plus of 400 million pounds. In 1984, U.S. net trade—exports minus imports—in tobacco and products, was a plus of over $2 billion.

Let us put imports in perspective. During the past 12 months, the International Trade Commission conducted an investigation, the second such investigation in 3 years, to determine whether tobacco imports are a cause or could be a cause of future harm to the tobacco program.

After an exhaustive study and extensive hearings, the Commission vote was 4 to 1 against recommending restrictions on tobacco imports. Their findings pointed out that the tobaccos under investigation are not being and are not practically certain to be imported into the United States under such conditions and in such quantities as to render ineffective or materially interfere with the price support and production adjustment programs for tobacco of the USDA.

During a summary statement, at the conclusion of the investigation, Paula Stern, Chairwoman of the ITC, made the following statement:

"If imports are limited, would the program and U.S. tobacco producers be materially better off? I do not believe they would. The enormity of the problems would be the same."

You will note that she indicated that neither the program nor producers would be materially better off if imports are limited and that the enormity of the problems would be the same.

Thus, it appears that imports are being used as a scapegoat to avoid coming to grips with the real basic problems facing the U.S. tobacco economy—problems that would be effectively addressed by passage of S. 1418.

The press release of May 23 indicates that H.R. 2600 ensures that the tobacco companies will bear part of the burden of the tobacco program—this is simplistic if not downright naive. I have not talked to anyone who is knowledgeable on this issue who believes that any excise tax increase on cigarettes will not be passed on to the cigarette smokers, who are the real consumers of the farmer's tobacco.

It would be the cigarette smokers in the first instance who would bear the burden of the tobacco program rather than the cigarette companies. However, the real burden will fall on growers as higher taxes lead to lower consumption of cigarettes and lower demand for tobacco.

Economic analyses indicate that increases in cigarette prices resulting from excise tax increases adversely affect the consumption of cigarettes. For example, the Federal excise tax was increased to 16 cents per pack on January 1, 1983. U.S. cigarette consumption declined by 5 percent or 34 million pieces in 1983. This had a devastating impact on auction purchases that year and was a significant factor in the large quantities of tobacco which went under loan. U.S. cigarette consumption has still not recovered from this excise tax blow.

The variable cigarette excise tax as proposed in H.R. 2600 could be expected to adversely affect cigarette consumption. This in turn would result in the use of less tobacco and the farmer would be the big loser. In addition, a cigarette excise increase proposed by tobacco politicians would be an open invitation for other Congressmen to propose such a cigarette excise tax to finance their own causes. In fact, there are already more than a dozen such bills in the hopper, bills that would increase excise taxes up to 32 cents per pack.

If H.R. 2600 passes, it would represent a new way of financing farm programs. If so, would it also make sense to: (a) finance the wheat program from an excise tax on bakery products, (b) finance the cotton program from an excise tax on textile products, (c) finance the feed grains program from an excise tax on livestock and dairy products, et cetera?

One of the objectives of the No Net Cost Tobacco Program of 1982 was to provide for the farmers to cover the cost of the program themselves rather than the taxpayers. Taking a part of the Federal cigarette tax to pay for the costs of the program is an admission that the program has failed. By earmarking tax money, the cost of the program actually reverts back to the taxpayers, just as it would if such funds were directly appropriated by Congress. In other words, this is a tax gimmick to offset the shortcomings of the No Net Cost Tobacco Program.

Our associations are strongly opposed to the provisions of H.R. 2600. It does nothing to resolve the real problems of the program and, if passed, could have a devastating impact on our entire tobacco economy.

Thank you.

Mr. ROSE. If the provisions of H.R. 2600, my tax bill here, was inserted into the Senate bill in lieu of their method of financing the Senate bill, which was to ask the Treasury to pay for the discount, and if the Ways and Means Committee were to assert that there would be no drop in the tobacco tax, it was going to stay at 16 cents; would you support it, that combination?

Mr. KIGER. I will say this. I think Treasury is going to support that portion of getting rid of loan stocks. After 1986, the purchasers and growers jointly support the program. To respond to your question, no, we are opposed to earmarking cigarette taxes for any type of purpose.

It opens the door for other causes; Medicare, Social Security.

Mr. ROSE. What if Senator Helms' bill does not pass the Senate? What are we going to do then?

Mr. KIGER. Well, you said you had some other alternative things that you were going to bring up.

Mr. ROSE. No; I said other things that should go with H.R. 2600 are basically what is in the Senate bill. I agree with you that H.R. 2600 is not the whole story. The things that S. 1418 does to change the way the program is run, I think, are important to be put into law. I do not agree with exactly how they do it now, but let us assume we got all this worked out, and the Senate would not give the money from the Treasury, and the Ways and Means Committee said we are not going to reduce cigarette taxes, but we will let the co-ops use 2 cents until their current loans to Commodity Credit Corporation are paid off. Would you support that?

Mr. KIGER. Well, let me say this. I think in the first place, I think the CCC has already committed itself to paying for the losses, so I do not think there is any backing up on that. Those were nonrecourse loans by law.

Mr. ROSE. Well, Senator Helms has that in S. 1418. And if it is done legislatively, I do not think it has got much of a chance of passing; but, let us say—let us suppose that those are taken off the table. Would you propose for cigarette tax money to be used to pay off the loans on post-1982 tobacco, if we then got on with the other major provisions of the Senate bill?

Mr. KIGER. I would say this. This is, of course, a hypothetical question that I have not discussed with my executive committee; but my personal view is that they probably would not OK this, for the reason which I stated earlier; for the fact that you are earmarking funds, you are setting a precedent, and you are going to have a group of other people coming in.

Mr. ROSE. Mr. Hopkins jumped on Mr. Myers about being against the tobacco program. Have you ever opposed the tobacco program?

Mr. **Kiger**. Have I ever opposed it? You have heard my testimony several times. We favor a tobacco program.

Mr. **Rose**. But when Mr. Petri was trying to phase out the program, you kind of worked with him one time, did you not?

Mr. **Kiger**. I did not. I told you that in Raleigh.

Mr. **Rose**. I apologize.

Mr. **Kiger**. Well, you should.

Mr. **Rose**. You did not give him information about the program?

Mr. **Kiger**. I have not talked with Mr. Petri. I have never met Mr. Petri in my life.

Mr. **Rose**. I apologize for that misinformation.

Mr. **Whitley**. If I understand your testimony, you are against earmarking any portion of the tax for the tobacco program, regardless of whether that would result in an increase in the tax or not?

Mr. **Kiger**. Yes; I think this outweighs the benefits you indicated. That is my only view.

Mr. **Rose**. I want to thank all of you for being here today, and especially we are very proud so many of our witnesses could come and testify about this legislation.

[Whereupon, at 5:05 p.m., the subcommittees were adjourned.]

[Material submitted for inclusion in the record follows:]

THE HONORABLE ALBERT GORE, JR.

TESTIMONY BEFORE JOINT HEARING OF AGRICULTURE COMMITTEE SUBCOMMITTEE ON TOBACCO AND PEANUTS AND WAYS AND MEANS COMMITTEE SUBCOMMITTEE ON SELECT REVENUE MEASURES U. S. HOUSE OF REPRESENTATIVES

JULY 18, 1985

Chairman Rose and Chairman Rangel, and members of the subcommittees, I am pleased to testify this morning on an issue of profound importance to the jurisdiction of both subcommittees -- tobacco growers and the U. S. Treasury. The issue involves the very serious financial problems facing the tobacco program, and their potential impact on tobacco growers and taxpayers generally.

My remarks will be brief, but I think it is important to lay out the history of the tobacco program and the factors that have given rise to the current crisis, in order to put the issue in perspective. The tobacco program was begun fifty years ago during the New Deal by President Franklin Roosevelt to control tobacco production in an effort to alleviate the desperate poverty in which Appalachia and surrounding geographical areas were trapped.

As the Chairmen well know, the bloated bellies and other signs of malnutrition and starvation that we see in Africa today are still within the living memory and personal experience of many residents of Appalachia. The tobacco program has helped spread the economic benefits of tobacco production from a handful of highly concentrated and enormously profitable manufacturing companies to a large number of very small family farms. The program protects the small grower from the otherwise unrestrained and enormous market power of these large companies. It has lifted the standard of living for many individuals and provided a means for earning a modest income.

The farms on which tobacco is grown in Tennessee are very small. The average size of a Tennessee farm is less than two acres. When we talk about the tobacco program, therefore, we are talking about these small farmers. Let me state clearly and unequivocally -- my concern is with protecting the grower, rather than the profitable companies.

The tobacco program is in jeopardy today for one reason -- the large companies have abandoned small growers. The companies have decided to obtain ever-increasing quantities of tobacco offshore, tobacco that these American companies are encouraging governments and farmers in Third World countries to grow, at the expense of precious rain forests and soil conservation techniques.

As a result, large quantities of surplus American tobacco, 1.3 billion pounds of flue-cured and burley tobacco combined, have accumulated in the last several years. These surpluses threaten to bankrupt the farmer-financed tobacco program. And unless proper action is taken, the tidal wave of surplus tobacco that is swamping the program will swamp taxpayers as well.

How do we deal with this problem? Is there a way to save the tobacco program in a form beneficial to growers without simply attempting to add a billion dollars to the budget deficit?

The companies have developed one proposal. It calls for slashing the support price and linking it to the market average in future years, continuation of no net cost assessments that have proven onerous to growers because of the companies' actions, and gives companies complete control of the quota system under which tobacco is grown.

In effect, the companies would completely control the market under their proposal. Growers would no longer be protected from the market power of the companies. By subjecting small growers to the enormous market power of the oligopolistic tobacco manufacturers, the proposal if enacted would fly in the face of the historical reason for the program's existence. And the proposal does nothing about imports. During negotiations leading to development of the proposal, the companies stated flatly that they refused even to discuss imports.

This proposal is very dubious from the farmer's point of view. It is disastrous from the taxpayer's point of view. Under the industry proposal, the companies would be authorized by legislation to purchase collusively the surplus tobacco at an outrageous discount that would cost the Treasury one billion dollars. There would be no source of revenue to compensate fo this loss.

Chairman Rose and I have developed an alternative proposal that avoids these serious pitfalls. It is fiscally responsible. It will help American farmers grow more tobacco. And it will continue to spread the economic benefits of tobacco production, the historical objective of the tobacco program.

S. 1205, which I have introduced in the Senate, would provide two cents of the cigarette excise tax to fund the tobacco program. The legislation would restore the tobacco program to a sound financial footing. The tax would increase if imports rose and the cost of the program increased, or fall if imports dropped and the cost of the program decreased. It is "pay as you go" budgeting in practice.

We must also consider the consequences if no action is taken and events are left to run their course. Under current law, farmers pay the cost of the tobacco program through no net cost assessments. The cost of carrying the enormous surpluses is compounding despite the diligent efforts of stabilization cooperatives, including Bill Myers of the burley stabilization corporation from Knoxville, who will testify later today. In fact, Bill Myers and others have done well to hold the cost as low as they have. They deserve credit. But the cost is still skyrocketeing. Burley tobacco no net cost assessments have increased from one cent per pound in 1982 to 30 cents per pound this year. And unless action is taken, the assessment for next year will be 50 cents per pound or higher.

Farmers will have the opportunity, at referenda in December for flue-cured tobacco and February, 1986 for burley tobacco, to decide whether they want the tobacco program to continue under these conditions. From discussions with growers in my state, I believe that the program will be voted out rather than continued with 50 cent per pound assessments. If this occurs, then taxpayers will be saddled with the loss from the surplus tobacco. In short, opponents of the tobacco program do taxpayers and the United States Treasury no favor by advocating the end of tobacco price supports.

The tobacco program is the only farm commodity program that has never been voted out by producers. If tobacco farmers decide on their own to end the program, it will be a signal not that they do not want or need a program, but rather that the companies have succeeded in making the program operate in an unacceptable manner. Growers will suffer severe hardships without a tobacco program.

The proposal that I advocate, embodied in H.R. 2600 and S. 1205, will deal with these problems in a fiscally responsible manner. It is a common sense solution. It will preserve the tobacco program. There are no tricks and no hidden costs. As we all know, the question is not whether tobacco will be grown, but who will grow it? I come down on the side of the small farmer who currently grows tobacco.

Thank you very much. I will be happy to answer any questions.

NATIONAL
FARMERS
ORGANIZATION

Subcommittee on Tobacco and Peanuts
Committee on Agriculture
and
Subcommittee on Select Revenue Measures
Committee on Ways and Means
U.S. House of Representatives

STATEMENT
CHARLES L. FRAZIER
National Farmers Organization
July 18, 1985

H.R. 2600 - Tobacco Equalization Act of 1985

On behalf of our tobacco producing members in the flue cured and burley areas, I thank you for this opportunity to appear briefly and comment on the bill H.R. 2600 introduced May 23rd by Congressman Rose and several other Members of the House.

The National Farmers Organization was started in the Middle West in 1955, a period of drought, low prices and farm foreclosures. Our membership consists entirely of farmers and ranchers. I am sure that farm families who started our organization thirty years ago could not imagine that today we would again be confronted with an increasing wave of bankruptcies resulting from our low prices, high costs of production and the fact that we are capable of overproducing our markets year after year.

Although we stress the value of organized bargaining with first purchasers of farm commodities, we must acknowledge the need for a federal farm program that reaches across commodity lines.

Producers must have assistance in their efforts to cope with subsidized exports from other countries in the world market and other factors influencing farm income that are beyond their control.

The general farm economy is worsening in almost all farming regions. Several of the major commodities are selling at prices far below the cost of production. Publication of the parity index by the Department of Agriculture recently established an all-time low record. Even though it has been condemned by some spokesmen who would belittle its' importance, the parity index is the longest running general indicator of the health of our farm economy. When the ratio reached 52 in May, that was the lowest point ever experienced since the series was started. It only dropped to 53 in June, 1932.

In this setting it is appropriate to remind the Congress that the tobacco program, in spite of its faults and shortcomings, has served this group of producers well through the years because those producers have been willing to cooperate in the control of production and make a sincere effort to supply the market at desired levels. This program generally has contributed to a stable industry and assured an ample supply of stocks for the commercial enterprises that are dependent upon tobacco.

We support most of the concepts in H.R. 2600. Our viewpoints are based on certain assumptions that may not be wholly acceptable today, but we are confident that, in time, our projections will appear to be quite reasonable. As in the case of all the major commodity issues facing the Congress as a new Farm Act is being written, we must consider the tobacco program in the context of the national budget, the farm economy in which we find ourselves and the actions that probably will be necessary to deal with the huge budget deficit. Although we all recognize that we simply cannot continue to operate with an annual shortfall in income to the government in the $200 billion range, it is equally apparent that the Congress finds it extremely difficult to identify domestic programs in which large savings may be made.

If we assume that efforts will continue to deal with this overriding problem, it seems to us that you probably will have to consider every reasonable possibility of increasing government income. The Congress once saw fit to double the excise tax on cigarettes when our national budget position was less desperate than it is today. We expect you to consider reinstatement of the 8¢ excise increase that is now scheduled to expire on October 1. Although our members do not advocate such an action, we anticipate that it may occur, nevertheless.

In another major assumption, we expect that the No Net Cost arrangement initiated in 1982 must be replaced or quite seriously modified. The check-off rates now in place to finance the operation of the price support program are intolerable. If we continue to import tobacco in quantities comparable to our recent experience and the No Net Cost program is left in place, we would expect that tobacco producers would be inclined to vote out the programs when they are next up in referenda. Although that particular consequence may please some of the shortsighted commercial operators and the political whims of those who condemn government farm programs, the consequences would lead to a great deal of turmoil in the tobacco producing areas. Financial institutions, local retail establishments and the community structure will suffer seriously in such circumstances. We believe you would not knowingly choose this course for the future.

If we are correct in our assumptions, the provisions in Title II of the bill should be modified to earmark such disposition of a portion of additional funds to be raised by reimposition of the second 8¢ excise tax as is necessary to carry out the provisions in Section 202 relating to creation and use of the Tobacco Equalization Trust Fund. We believe it the wiser course to earmark excise funds to support the producer side of the tobacco industry in this country and recommend that you move to do so.

MR. CHAIRMAN AND MEMBERS OF THE JOINT SUBCOMMITTEES

I am Richard J. Jenks, a flue-cured tobacco farmer from Apex, North Carolina. I serve as the President of the Wake County Farm Bureau and on the Board of Directors of the Flue-Cured Tobacco Cooperative Stabilization Corporation.

I express appreciation to you for holding this hearing on H.R. 2600 and allowing me this opportunity to appear before you today. Tobacco farmers in my community are now in a very difficult financial situation. That situation is so critical that they will not be able to survive without some assistance from the government. We are not asking for a handout. We are asking you to favorably consider and report out H.R. 2600 to help us work out of a difficult problem.

The problem is that under the No Net Cost Tobacco Program Act of 1982, loan stock accumulations over the past three years, for which growers are responsible, have reached 541 million pounds with the threat that another 200 million pounds could be placed under loan out of the current crop. In the three years we have operated under the No Net Cost Act, growers assessments have increased from 3 cents to 25 cents per pound. In fact, the cost now is approximately 10 million dollars per month to carry stabilization stocks. At 25 cents per pound, approximately $550. per acres comes out of a growers income. For example, if I had twenty acres last year, this year I can expect $11,000. less from these twenty acres in 1985 than in 1984. Let me share with you my views of what has caused the build up in loan stocks over the past three years.

When the No Net Cost Program was enacted in 1982, the U.S. and most other countries of the world were experiencing a recession. Foreign countries were taking advantage of the chance to generate more income at our expense. Tobacco was one of those commodities used. Imports of foreign grown tobacco entering the U.S. was increasing rapidly. Production of tobacco was increasing rapidly. Production of tobacco was increasing world-wide. With our program we agreed to keep supply in line with demand in return for price support. Every time we cut quota, world production would increase. Thus putting more tobacco on the world market at a cheaper price. Which makes imports more favorable for domestic use. At the same time, a pound of foreign tobacco displaces a pound of U.S. tobacco.

The value of the dollar increased by 25 to 30 percent. Therefore, naturally it takes more of other countries money to buy U.S. tobacco while it, at the same time, makes imports more favorable for domestic use.

Unemployment in the U.S. reached high levels (meaning less money in the economy), which means less money to be spent by the people for items of luxury.

Anti-Smoking campaigns and restrictions on where the products could be used. In coming up this morning, I was placed in the Smoking Section of the airplane. The cab driver said, "No Smoking." There are No Smoking signs just about every where in the halls of Congress. And to top that, just recently a No Smoking restuarant opened in Raleigh.

Tobacco farmers can not bear the burden which was created by those circumstances coming together at almost the same time. We can not take action to reduce the price level and reduce the farmer's income as long as we bear the responsibility for the loan inventories. It would be economic disaster for us if the price was reduced to levels that are being talked about by some people and we still have to pay assessments of 25 cents or more per pound.

H.R. 2600 is needed to provide us some help in order to make U.S. tobacco more competitve. I will not be able to stay in business as a farmer without it. I view this as a bridge to help farmers get across a very difficult period. A stable economy at the farmer's level is essential for the survival of many rural communities, especially in my state.

Consumers of tobacco products are the payers of the excise tax on cigarettes. I believe that the overwhelming majority of those consumers would support the designation of up to 2 cents per pack of cigarettes to help tobacco through this period.

In closing, tobacco has meant so much to this country, from the indians who were already on this continent using tobacco when Christopher Columbus discovered this continent, to the first settlers who began to raise tobacco to trade for clothing, shoes, and food, to the communities that have since been formed, to the universities of our great state that were built by tobacco fortunes, to the billions of dollars our national and state governments receive from excise taxes. If tobacco has meant anything to this great country, I hope you will look favorably at H.R. 2600.

Thank You,

Richard J. Jenks

FRED RICK C. BOUCHER
9TH DISTRICT, VIRGINIA

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Congressman Rick Boucher
Testimony Presented to the House Committee
on Ways and Means
Subcommittee on Select Revenue Measures
July 18, 1985

Mr. Chairman:

I am pleased to present testimony to the Subcommittee on Select Revenue Measures in support of H.R. 2600, the Tobacco Equalization Act of 1985. This legislation, which was introduced by the distinguished Chairman of the Tobacco and Peanuts Subcommittee - Representative Charlie Rose, offers the best means of saving the federal tobacco program and the thousands of farmers it serves.

At the outset, let me say that I represent more than 15,000 burley tobacco farmers in a 17-county region of Southwestern Virginia. The nature of our land is such that farms are small, with the average tobacco quota totalling only 1200 pounds. With such small quotas, most of our farmers supplement their income by either raising other crops or holding part-time jobs.

Notwithstanding the fact that our rugged terrain makes large farms difficult to maintain, burley tobacco is by far the largest cash crop in Southwest Virginia. In 1984 sales of burley tobacco in my district totalled approximately $41.8 million. Tobacco is the primary source of income for thousands of my constituents and a crucial base for our farm supply businesses.

In 1985, tobacco farmers face a time of great uncertainty. A number of recent developments threaten the future of the tobacco program and have made legislation necessary to restore grower confidence in it. A 30% increase in burley imports since 1982, the static demand for manufactured tobacco products and export problems common to other agricultural commodities have combined to drive stockpiles of surplus tobacco to unprecedented levels. For burley, pool stocks of surplus tobacco total just under 600 million pounds, which is a one year supply at current utilization rates. And for flue-cured, total pool stocks are even higher.

Tobacco is unlike any other commodity governed by USDA price-support and production-control programs because tobacco farmers are required to pay the losses and carrying charges on unsold surplus crops. Growers finance this unique program, which was created under the No-Net-Cost Act of 1982, through a marketing assessment on each pound of domestically sold tobacco, and this cost has risen sharply as surplus stocks have increased. The No-Net-Cost assessment on burley alone has risen from 1¢ per pound in 1982 to 30¢ this year. If action is not taken soon to address this problem, growers could face an assessment of more than 50¢ during the 1986 marketing season.

The burdensome No-Net-Cost marketing assessment has led many of my constituents to question the value of future participation in the federal tobacco program. If growers withdraw from the program in a referendum to be held in February of next year, the federal government could face a loss in excess of $500 million.

Preventing such a loss and eliminating the marketing assessment are the two primary components of H.R. 2600. Under the provisions of the bill, a flexible excise tax on cigarettes would replace the marketing assessment as the financial basis of the federal price support program for tobacco. This is a fair approach to the tobacco program which retains the essential "no-net-cost" principle of the 1982 legislation while relieving tobacco farmers of the severe burdens inherent in the existing program.

It is estimated that current stock levels and potential losses will require a tax of no more than 2¢ per pack in the immediate future. However, the tax could be adjusted upward depending on the future volume of tobacco held under loan by grower cooperatives. In this manner, H.R. 2600 addresses the growing problem of imports by providing U.S. cigarette manufacturers with a very strong incentive to avert large surpluses of U.S. leaf.

I recognize and share the Committee's reluctance to adopt legislation which results in new or more complicated taxes. However, as the representative of more than 15,000 tobacco farmers, I also recognize the danger of not addressing the program's problems. In the absence of legislation which will relieve growers of the 30¢ per-pound marketing assessment and the tax liability which is associated with it, thousands of farmers in Southwestern Virginia and the eastern portion of the United States will probably withdraw from tobacco farming and suffer a significant decline in income. Such a result would spell disaster for our farm economy.

The Tobacco Equalization Act of 1985 is a fair, modest proposal to ensure the solvency of the federal tobacco program. Through the imposition of a small tax on the tobacco consuming public, it will preserve the livelihood of thousends of tobacco farming families.

I commend my good friend from North Carolina, Representative Charlie Rose, for his leadership on this matter, and I urge the Subcommittee to report H.R. 2660 favorably to the full Ways and Means Committee.

The Tobacco Producers Association
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Executive Director
Carl Cook
Phone (502) 565-3795

DATE: July 8, 1985

TO: The Subcommitee on Tobacco and Peanuts of the House Agriculture Committee & The Subcommittee on Select Revenue Measures of the House Ways and Means Committee

FROM: Carl Cook, Executive Director

SUBJECT: The Tobacco Equalization Act of 1985, H.R. 2600

The Tobacco Producers Association is an organization of about 1,200 members in Kentucky, Tennessee, Indiana and West Virginia. All are farmers actually engaged in growing tobacco or in agri-businesses directly concerned with tobacco production.

The purpose of our organization is to help develop positive solutions to tobacco's supply and price problems. To support legislation favorable to U.S. agriculture in general and to U.S. tobacco producers in particular. To support the continuance of the present system of poundage quotas and price supports for tobacco, this most successful of all the farm commodity programs has given stability to tobacco prices for producers and fair returns for farmers, at the same time has paid its own way, never costing the general taxpayer one cent. We recognize in particular the unique roll tobacco has on the small family farm to utilize family labor, to provide a reasonable return to the small farm with limited crop-land and small sized equipment.

We have long been encouraged to believe the superior quality of U.S. grown tobacco would always be indispensable to cigarette manufactures. But we are now seeing evidence that manufactures intend to substitute more and more inferior foreign grown leaf in order to earn a higher profit for their companies. The amount of foreign tobacco imported has reached 800 million pounds per year, or about 25% of total usage by U.S. manufactures. It has cost the U.S. farmers more than $700 million in lost income and therefore the related agri-businesses $500 million which farmers would have spent with them for production costs.

We as U.S. tobacco producers can not permit this costly trend to continue. We must look upon the import problem as the major contributing factor to our over supply of leaf tobacco today. The supply of tobacco and prices at the present time can not be stabilized so long as cigarette manufactures can import unlimited amounts of tobacco at prices below production costs in the U.S. It is a known fact that some cigarette manufactures are supplying foreign growers with seed, chemicals, fertilizers, cultural information and skilled technicians to help them increase production and quality. We view this as very real and increasing threat to the U.S. tobacco farmer in both domestic and international markets.

Not only does this vast flood of imported tobacco cost U.S. farmers nearly 3/4 billion dollars, it costs U.S. labor jobs, it costs U.S. banks and all levels of businesses, it even costs the government lost tax revenue because of less income. The import problem should be a major concern of all Americans- not just tobacco farmers alone. President Reagen has expressed extreme concern about the United States' trade imbalance with other countries, is the 3/4 billion contribution of tobacco not a part of it? In spite of this the International Trade Commission earlier this year rejected controls on tobacco imports- clearly in reaction to the powerful cigarette manufacture's lobby.

There are three factors that cause the cigarette manufactures to believe now is the opportune time to destroy the production quota and price support program and return tobacco to a free market system: (1) The present Federal administration's proposal to eliminate the program. (2) The favorable outlook for expanding imports. (3) The present large stocks held by the Cooperative and the resulting untenable No Net Cost to farmers. To return tobacco to a free market system would be a disaster of the first magnitude, sending shock-waves through the entire economy of the whole tobacco producing area. The inevitable results would be wildly fluctuating supplies and prices from year to year, much production would move out of the traditional tobacco growing states, small family farms would be squeezed out of existence as more and more production moved to the larger corporate farms with production contracts. The small Appalachilan area farms, with limited crop-land and little mechanization, would be virtually wiped out without the protection offered by their farm quota. If we should loose tobacco as a profitable crop, we would expect one-third of the small town banks and half of the country businesses to be unable to stay in business in the traditional tobacco growing areas.

Everyone in the tobacco industry has a plan to "save" tobacco-- trouble is most of these plans are such harsh medicine the cure is going to kill the farmer. The so-called "Reynolds Plan," whole-heartedly swallowed by Kentucky Farm Bureau, asks farmers to give up 80% of their net profit to "save" the program.

The "New Plan" announced a few weeks ago is even more costly to farmers. It asks not only the same price reduction as the Reynolds plan, it would offer the cigarette manufactures an opportunity to buy much of the pool stocks at an almost give away price, some as low as 5% of their value, better that farmers buy such tobacco and destroy it. The formula suggested for setting future years support prices precludes any possibility they would ever again reach a level where farmers could receive a fair return for growing tobacco. Farmers have already done their part in holding down the cost of leaf tobacco by submitting to a price freeze for supports in the last two years, even though production costs have continued to increase.
If this is the plan to "save" tobacco, don't bother!

Fortunately, there are viable alternatives in such measures as The Tobacco Equalization Act of 1985, H.R. 2600, by Mr. Rose of North Carolina. We believe this measure has some novel and appealing provisions that would make it acceptable by a wide spectrum of people. Tobacco growers are going to just love it, of course. Bankers are going to like it because the tobacco farmer can pay the interest on his mortgage one more year. The corner grocery will like it because the farmer's wife can buy her groceries with cash instead of food stamps. The social workers in Appalichia are going to like it when they don't have to write 50,000 new welfare applications for tobacco farmers. Smokers will like it because they can continue to get good U.S. tobacco in their cigarettes. Nonsmokers will like it because they don't have to pay the tax. Maybe even the health faction will like it because a pack of cigarettes will cost 2 cents more now.

The Tobacco Producers Association is pleased to endorse H.R. 2600. We believe this measure, in connection with some form of restriction on tobacco imports, will assure tobacco remains a profitable crop for the American farmer.

JAMES A. GRAHAM

COMMISSIONER

NORTH CAROLINA DEPARTMENT OF AGRICULTURE

CONGRESSMAN ROSE, CONGRESSMAN RANGEL AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE ON TOBACCO AND PEANUTS AND THE SUBCOMMITTEE ON SELECT REVENUE MEASURES. IT IS A TRUE PLEASURE TO BE WITH YOU TODAY TO DISCUSS LEGISLATION THAT WOULD TARGET A PART OF THE FEDERAL TOBACCO EXCISE TAX TO THE TOBACCO GROWERS OF THIS COUNTRY. THE FACT THAT THIS HEARING IS BEING HELD TODAY WILL GIVE SOME HOPE TO OUR FARMERS THAT SOMETHING MAY BE DONE TO EASE THEIR PROBLEMS.

IN JUST SIX DAYS THE TOBACCO MARKETS WILL OPEN IN THE FLUE-CURED TOBACCO BELT, AND WE ALL ARE ANXIOUS TO SEE WHAT PRICE SUPPORT WILL BE IN EFFECT, AND WHAT PERCENTAGE OF THE CROP WILL GO TO STABILIZATION. PROBABLY THE ONLY THING WE CAN BE SURE OF TODAY IS THAT THERE WILL BE NO LEGISLATION FAVORING THE TOBACCO FARMER FOR THE FLUE-CURED 1985 CROP. THE ONLY POSSIBLE ACTION TO GIVE THE FARMER HOPE OF A GOOD MARKET IS IN THE ADMINISTRATIVE ARENA OF THE SECRETARY OF AGRICULTURE.

FOR MANY MONTHS I FAVORED AN ADMINISTRATIVE SOLUTION TO THE TOBACCO MARKETING PROBLEM. TO DATE, THAT ADMINISTRATIVE SOLUTION HAS NOT BEEN FORTHCOMING, AND THE PROSPECTS OF ANY ACTION OTHER THAN THAT ALREADY ANNOUNCED BY THE SECRETARY APPEAR DIM.

THE PRIMARY REASON THAT I HAVE FAVORED AN ADMINISTRATIVE SOLUTION HAS BEEN THE REALIZATION THAT IT WILL BE MOST DIFFICULT TO OBTAIN PASSAGE OF FEDERAL LEGISLATION THAT IS FAVORABLE TO THE TOBACCO FARMER, WHILE PREVENTING PASSAGE OF LEGISLATION THAT IS DETRIMENTAL TO THE TOBACCO INDUSTRY AS A WHOLE. YOU, AS OUR REPRESENTATIVES IN THE CONGRESS, ARE IN THE BEST POSITION TO ADIVSE THE FARMER, AND THE FARM ORGANIZATIONS OF THE OBSTACLES THAT ANY PROPOSED LEGISLATION FACES. CONSEQUENTLY, YOU ARE THE ONLY ONES THAT CAN MAKE THE DECISION TO MOVE WITH LEGISLATION, AND AT WHAT POINT IN TIME THAT LEGISLATION MAY BE ATTEMPTED.

IN THIS SENSE, I HAVE PREVIOUSLY STATED THAT I WOULD SUPPORT A TARGETED EXCISE TAX FOR TOBACCO GROWERS ONLY IN THE ABSENCE OF ANY ADMINISTRATIVE ACTION TO ASSIST THE FARMER, OR UPON THE FAILURE OF OTHER LEGISLATIVE INITIATIVES TO GAIN PASSAGE IN THE CONGRESS. TODAY, I STILL MAINTAIN THAT POSITION. I CAN SUPPORT THE TAX LEGISLATION AS THE LAST RECOURSE FOR FARMERS, BUT I AM NOT READY TO SAY THAT WE HAVE REACHED THE POINT THAT NO OTHER ALTERNATIVES REMAIN TO BE PURSUED. THAT MUST BE YOUR DECISION, OUR ELECTED REPRESENTATIVES IN WASHINGTON. IF IN THE MINDS OF YOU, THE CHAIRMAN OF THE TOBACCO AND PEANUT SUBCOMMITTEE AND THE MEMBERSHIP OF THAT SUBCOMMITTEE, WE HAVE NO OTHER AVENUE OF RELIEF, THEN I WILL SUPPORT YOU FULLY IN YOUR EFFORTS.

I WOULD HOPE THAT THE DECISION TO PURSUE TAX LEGISLATION WOULD BE SUPPORTED BY ALL REPRESENTATIVES IN ALL TOBACCO PRODUCING DISTRICTS, AND STATES, BOTH IN THE BURLEY AND FLUE-CURED PRODUCTION AREAS. IT IS GOING TO BE TRICKY TO ACHIEVE A TARGETED TAX FOR FARMERS WITHOUT THERE BEING ADDITIONAL TOBACCO TAXES IMPLEMENTED THAT WOULD BE DETRIMENTAL TO THE ENTIRE TOBACCO INDUSTRY. UNITY IN THE TOBACCO COMMUNITY WOULD HELP PREVENT OTHER TAXATION.

IT HAS LONG BEEN MY POSITION THAT AGRICULTURAL PRODUCTS SHOULD NOT BEAR AN UNDUE TAX BURDEN. TOBACCO HAS, HOWEVER, LONG BORNE AN EXCEPTIONALLY HEAVY TAX. TOTAL TAX REVENUES FROM TOBACCO FAR EXCEED THE GROSS FARM INCOME FROM TOBACCO, AND ADDITIONAL TAXES WILL ONLY SERVE TO REDUCE TOTAL FARM INCOME IN THE LONG TERM. IF WE CAN AVOID THE TAX APPROACH, THEN WE SHOULD DO SO. IF IT IS OUR ONLY SALVATION, THEN WE SHOULD PURSUE IT. IF YOU MAKE THE DECISION TO MOVE FORWARD, THEN I WILL WORK WITH YOU TO GAIN SUPPORT FOR ITS PASSAGE.

THANK YOU FOR THE OPPORTUNITY TO BE WITH YOU TODAY TO PRESENT MY VIEWS ON THIS LEGISLATIVE INITIATIVE.

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HORACE R. KORNEGAY
Chairman

July 11, 1985

The Honorable
Charles Rose
Subcommittee on Tobacco & Peanuts
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I thank you for your invitation to testify on July 18, 1985, at the hearing on H.R. 2600, being held jointly by the Tobacco & Peanut Subcommittee of the House Agriculture Committee and the Subcommittee on Select Revenue Measures of the House Ways & Means Committee.

On June 20, I testified before the full Ways & Means Committee supporting the "sunset" of the 8¢ cigarette excise surtax as provided in the Tax Equalization Act of 1982. At that time, I expressed The Tobacco Institute's strong opposition to any cigarette excise tax increase and, I believe, all the reasons I gave on that occasion, apply as well to H.R. 2600. I have enclosed a copy of that testimony for inclusion in your record.

Please note the very strong position taken in my testimony with respect to the tobacco farmers' plight and the additional burden placed on the farmer by any excise tax increase.

With respect to the tobacco support program, The Tobacco Institute has traditionally deferred to the leadership of the grower organizations and the growers as to the details and mechanisms of the program. Because The Tobacco Institute has not been involved in the most recent negotiations regarding the tobacco program, we do not believe personal testimony on H.R. 2600 would be necessary or productive. With respect to the tax implications of H.R. 2600, we would simply emphasize that we have never failed to express our strong belief that cigarette taxes are not in the interest of anyone in the tobacco family, i.e., the growers, manufacturers, warehousemen, wholesalers, retailers, or anyone whose livelihood is dependent upon or affected by the sale of tobacco products.

In addition, I request permission to file for the record a brief statement in opposition to earmarking any portion of cigarette excise taxes for any purpose.

Thank you for your consideration.

Sincerely yours,

Horace R. Kornegay

Horace R. Kornegay
Chairman
The Tobacco Institute

HRK/msr

Enclosure

cc: The Honorable
Charles B. Rangel
Larry J. Hopkins
Guy Vander Jagt

Statement of

Horace R. Kornegay
Chairman
The Tobacco Institute

I am Horace R. Kornegay, chairman of the Tobacco Institute, the trade organization of 12 companies which manufacture tobacco products. I appreciate deeply this opportunity to testify before the Ways and Means Committee.

Mr. Chairman, in 1982 the Congress enacted a temporary doubling of the Federal excise tax on cigarettes and provided that this addition to the basic tax would sunset on September 30, 1985. You are today considering whether to permit this decision to remain unchanged.

We should be clear at the outset that to legislate any rate above 8 cents is to raise taxes. As the distinguished majority leader of the United States Senate recently and succinctly said,

> The law says the tax will go to eight cents this fall. If we change the law, we raise taxes, pure and simple.

This Committee and its Senate counterpart have recently embarked on an historic bipartisan effort to reform our tax system. The nation was deeply impressed, Mr. Chairman, by the President's speech announcing this revolutionary undertaking and by your statesmanlike response. Knowing that I would see you in person today, I have not taken advantage of your invitation to "write Rosty", but I want to express my admiration for the stance you have taken in approaching a difficult and needed task.

Among the guiding objectives of the proposed reform on which you and the President seem to agree are the following:

-- reform should provide a fairer and more neutral system, equalizing burdens and eliminating loopholes

-- reform should favor economic growth and reduce obstacles to growth

-- reform should relieve the burden on those in the most depressed economic groups.

Raising the cigarette excise tax would violate each of these principles.

At a time when this Committee is seeking to make the tax system more fair, it would be strangely inconsistent to increase the tax burden borne by the one-third of the adult population who choose to smoke while no comparable tax burden is shared by consumers of other products.

At a time when this Committee is seeking to make the tax system more neutral, it would be unneutral to raise a tax that singles out one industry.

At a time when this Committee is seeking to promote economic growth, it would be "anti-growth" to use the taxing power to raise costs, reduce sales and eliminate the jobs and other economic benefits our industry would provide if it were taxed on the same basis as other industries.

At a time when this Committee is seeking to make the tax system less burdensome on the poor, it would be unfair to double the scheduled rate of a regressive tax that bears most heavily on those least able to pay.

The issue of regressivity deserves particular attention. One authority, Robert Tollison, professor of economics at George Mason University, has testified that "Excise taxes on tobacco products are the most regressive of the selective consumption taxes...".

The burden of the cigarette excise tax on smokers with an income below $10,000 is five times as great as that borne by smokers with income above $50,000. The regressive effect of this tax is intensified because smoking is more prevalent among lower income groups than among those in higher income brackets. This is a tax which is collected in disproportionate share from the poor and lower middle income classes.

Regressiveness is by no means the only defect of the form of taxation you are considering today.

The selective excise tax has been subjected to strong criticism by economists. No less an authority than the Assistant Secretary of the Treasury for Tax Policy, Ronald A. Pearlman said last December:

> ...you will not find any economist and you will not find me defending excise taxes as anything other than revenue raisers. They are regressive. They are industry specific. They are unsound in my judgment from any economic or tax policy basis...I would not seek to defend them on any rational basis.

In view of all of these manifold defects, we urge that this form of taxation be used sparingly and its rates kept low.

The Federal cigarette excise tax should not be considered in isolation from the many other forms of taxation imposed on the producers and users of tobacco by government at all levels. The tax burden borne by this industry and its customers is mammoth in comparison with that borne by business in general and by consumers of other products.

The magnitude of this burden is established in a forthcoming study by Chase Econometrics. It finds that, when all types of taxes paid to all levels of government are taken into consideration, 48 per cent of the expenditure of smokers for tobacco products ends up in the hands of Federal, state and local tax collectors.

Two factors explain this extraordinarily high figure. First, the tobacco industry and its customers are singled out for an added charge in the form of excise taxes, yielding close to $10 billion annually to the treasuries of the Federal Government, all 50 states and approximately 400 local governments. Secondly, cigarette manufacturers bear one of the heaviest effective rates of Federal corporate income taxation.

In considering whether to increase the scheduled cigarette excise tax after October 1 of this year, Mr. Chairman, your Committee should make its decision mindful of the entire excessive tax burden imposed on those who choose to smoke.

Obviously, the states, which rely heavily on tobacco taxes, are greatly affected by any decisions you make on the Federal tax. There is a widespread attitude among state officials, which they can better express than I, that a higher Federal tax poaches on a field which should belong to them. Three years ago the President, under the concept of the New Federalism, gave support to this position by proposing that the Federal Government withdraw from this field of excise taxes leaving it exclusively to the states.

Between 1951 and 1982 the Congress respected the primacy of the states in this field of taxation. The Federal excise tax remained at 8 cents while the states raised cigarette taxes frequently and substantially. In three decades state revenues from this source rose from $465 million annually to more than $4 billion - almost a ten-fold increase. During this period, states increased the tax rate on cigarettes by 440 per cent.

Fifteen states, anticipating that the temporary added excise tax on cigarettes would sunset on schedule, have this year provided for an increase in their cigarette taxes.

Were the Congress to reverse its decision on the Federal tax, the effect would be disruptive on State finances, and those States which have taken such action contingent on the sunset can justifiably complain that they have been victimized by a change of Federal policy.

Mr. Chairman, let me invite the attention of your Committee to one other important consideration that should enter into your decision on the Federal cigarette excise tax -- the plight of the tobacco farmer.

The Federal tax increase was imposed at a time when the problems of the tobacco farmer were mounting. Between 1978 and 1982 chronic adversity in this sector of agriculture was manifested by a steep reduction in the number of farms producing tobacco in several states. During these years the number of tobacco farms in North Carolina decreased by 26 per cent; in South Carolina, by 33 per cent; in Georgia, by 31 per cent; in Maryland, by 21 per cent; and in Virginia, by 18 per cent. Then, in 1983, the year the Federal tax increase became effective, the tobacco farmer suffered a decline of one-third in the cash value of his crop.

Currently, the unsold stocks of tobacco under Commodity Credit Corporation loan -- tobacco that was not bought in the market at the support price -- amounts to more than 1-1/4 billion pounds. The tobacco grower is hurting.

I trust that the Congress, in its concern to help the agricultural community in general, will not ignore the tobacco farmer. And I hope this Committee will ask whether a 16-cent Federal tax on cigarettes helps the farmer.

In 1983 some 710,000 jobs were involved in producing and distributing tobacco products, and an additional 1.6 million jobs depended on the spending of workers in the tobacco industry. Tobacco accounted directly for $31.5 billion of the Gross National Product and indirectly for an additional $50.6 billion. One of the few bright spots in the U.S. 1984 balance of payments was the more than $2 billion surplus of tobacco exports over imports.

Thus, when I ask this Committee to let the temporary added tax on cigarettes expire on schedule, I make this request on behalf of an industry important to the nation's economy. Tobacco farmers, distributors, thousands of retail establishments, the manufacturers and sellers of tobacco products, and 55 million consumers will be affected by your decision.

FORTNEY H. (PETE) STARK
9th District, California

COMMITTEES
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

STATEMENT OF CONGRESSMAN FORTNEY H. (PETE) STARK
BEFORE THE WAYS AND MEANS COMMITTEE
SELECT REVENUE MEASURES SUBCOMMITTEE
JULY 18, 1985

ON H.R. 2600, THE TOBACCO EQUALIZATION ACT OF 1985

Mr. Chairman, Members of the Committee:

Thank you for this opportunity to testify.

As you know, I am the author of a bill to keep the cigarette excise tax at 16 cents per pack, adjust the tax for changes in the CPI (but not less than a penny a year), and to earmark the amounts of money above the old 8 cent per pack tax to the Medicare Trust Funds. The rationale for this is that cigarette smoking imposes medical costs on society and, in the spirit of "user fees", we should be increasing the tax and earmarking it for health care. In addition, when Federal debt is increasing $5,707 a second and when the President's tax reform proposals are clearly deficit-expanding ideas, I do not think we can give up some $2 billion in annual revenues that people have become used to paying. I, for one, have not gotten a single letter from a smoker in two years complaining about the level of tax!

Under my good friend Mr. Rose's proposal, the tax would fall to 8 cents in two more months, and only a small variable tax would be imposed to cover the costs of the tobacco support program. I think Mr. Rose is absolutely correct in understanding that the existing program is in extraordinarily deep trouble. The various tobacco programs are always in the top three of my constituents' hit lists for ways to save money!

I don't like crop support programs and I believe the tax should stay at 16 cents and gradually increase.

Having said all this, I have great sympathy for my colleagues from the tobacco growing states. Some of their constituent families have probably been growing tobacco longer than there has been a United States of America. To completely abandon the tobacco program would be to bring instant and deep depression to many rural counties--most of which are already in tight times.

My point in testifying today is to say that I would support temporarily earmarking a small part of the 16 cent tax to a form of adjustment assistance--like trade adjustment assistance, if you will--to help farmers move out of this crop and into new lines of production and land use. To the extent the tobacco problem is caused by overproduction and depressed prices, fewer tobacco farmers will mean better times and less need for government intervention for those who continue to farm this crop.

I am in the process of drafting a bill which would earmark some cigarette excise tax revenues to the tobacco growing states for a temporary program of adjustment assistance. The assistance could take the form of everything from marketing research, to low-interest loans for co-ops to help with machinery, packaging, storing, marketing, and transporting the new types of crops. This type of adjustment assistance would pay off through reduced tobacco subsidy costs and through a lessening of this divisive issue in the public debates on agricultural policy. These low interest loans would be justified as a "buy out" of long held and valuable tobacco crop allotments. Once the allotments were traded in for a loan, they would not be reissued and the acreage would pass out of tobacco production and into new kinds of crops.

Some tobacco farmers may ask, "What alternative crops? Everything's depressed." I am not a farmer and have no green thumb, but I know that when I go to a grocery story and see people charging $4 plus for a half a pint of raspberries, that a little more supply would be in order. This past weekend, farm raised rainbow trout were running about $4.99 a pound in one large grocery story. Veal is always an eye-opener. It is the middle of the summer, and red eating cherries are running $1.79 a pound. I mention these as examples of items which are popular but where demand in the large Eastern cities is limited by the very high prices. Some creative marketing and alternative crops in the Central Atlantic States ought to be possible for those who are exhausted with the tobacco wars.

I offer this peacepipe to my tobacco state colleagues in the hope that it could help their constituents and point to a long-range answer to the tobacco problem. In so doing, I am helping my constituents who are faced with hundred million dollar liabilities from storehouses full of tobacco and who are sick to death of the tobacco subsidy program. It is in the interest of everyone to encourage a reduction in the number of tobacco farmers, but to encourage the continuation of farm families and diversified crop production.

I will be happy to share my ideas on this draft bill with others to see if there is interest in this "end the tobacco subsidy/help the farmer" approach.

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